SECURITIES AND EXCHANGE COMMISSION

FORM S-1/A

General form of registration statement for all companies including face-amount certificate companies [amend]

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FILER

MARATHON FINANCIAL CORP
CIK:**854399**| IRS No.: **541560968** | State of Incorp.:**VA** | Fiscal Year End: **1231**
Type: **S-1/A** | Act: **33** | File No.: **333-08995** | Film No.: **96620534**
SIC: **6021** National commercial banks

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As filed with the Securities and Exchange Commission on August 26, 1996

Registration No. 333-08995

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-1
REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

MARATHON FINANCIAL CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Virginia	6712	54-1560968
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

4095 Valley Pike
Winchester, Virginia 22602

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

DONALD L. UNGER
President and Chief Executive Officer
MARATHON FINANCIAL CORPORATION
4095 Valley Pike
Winchester, Virginia 22602
(540) 869-6600
(Names, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

With Copies to:

JODY M. WAGNER, ESQ.
Kaufman & Canoles
P.O. Box 3037
Norfolk, Virginia 23514-3037
(804) 624-3294

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ ]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

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MARATHON FINANCIAL CORPORATION

Cross Reference Sheet

(Pursuant to Rule 404(a) of the Securities Act of 1933, as amended, and Item 501 of Regulation S-K)

Item No. and Caption in Form S-1	Location or Caption in Prospectus
1. Forepart of the Registration Statement and Outside Front Cover Page of Prospectus	Facing Page of Registration Statement; Cross Reference Sheet; Outside Front Cover Page of Prospectus.
2. Inside Front and Outside Back Cover Pages of Prospectus	Inside Front and Outside Back Cover Pages of Prospectus.
3. Summary Information, Risk Factors and Ratio of Earnings to Fixed Charges	Prospectus Summary; Investment Considerations.
4. Use of Proceeds	Use of Proceeds.
5. Determination of Offering Price	Outside Front Cover Page of Prospectus; Investment Considerations; Underwriting.
6. Dilution	Not Applicable.
7. Selling Security Holders	Not Applicable.
8. Plan of Distribution	Outside Front Cover Page of Prospectus; Prospectus Summary; Offering to Stockholders; Underwriting.
9. Description of Securities to be Registered	Description of Capital Stock.
10. Interests of Named Experts and Counsel	Legal Matters; Experts.
11. Information with Respect to the Registrant	Outside Front Cover Page of Prospectus; Prospectus Summary; Investment Considerations; Use of Proceeds; The Corporation; Capitalization; Selected Consolidated Financial Data; Management's Discussion and Analysis of Financial Condition and Results of Operations of Marathon Financial Corporation; Business; Management; Description of Capital Stock; Consolidated Financial Statements.
12. Disclosure of Commission Position on Indemnification for Securities Act Liabilities	Not Applicable.

PRELIMINARY PROSPECTUS DATED AUGUST 26, 1996, SUBJECT TO COMPLETION

500,000 Shares

MARATHON FINANCIAL CORPORATION

Common Stock

Prior to this offering, there has been no public market for the Common Stock of Marathon Financial Corporation, a Virginia corporation (the "Corporation"). See "Market Price and Dividend Data." The Corporation has applied to have its Common Stock approved for listing on the NASDAQ SmallCap Market under the symbol "MFCV." It is currently anticipated that the public offering price will be between $4.75 and $5.75 per share. See "Underwriting" for information regarding the factors considered in determining the offering price.

Of the 500,000 shares of Common Stock described herein (the "Shares"), 100,000 Shares will be offered first to the Corporation's stockholders of record

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on June 24, 1996 at $5.00 per Share, on the basis of one Share for each 12 shares of Common Stock owned on such date (the "Subscription Offering"). See "Offering to Stockholders." All Shares not subscribed for in the Subscription Offering, together with 400,000 additional Shares, will be offered to the public ("Public Offering"). The Corporation reserves the right to increase the total number of Shares offered in the Public Offering by not more than 75,000 Shares.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, THE FEDERAL RESERVE BANK, THE VIRGINIA STATE CORPORATION COMMISSION OR ANY OTHER STATE OR FEDERAL AGENCY, NOR HAS ANY STATE OR FEDERAL AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE SECURITIES OFFERED HEREBY ARE NOT SAVINGS ACCOUNTS OR SAVINGS DEPOSITS, AND THEY ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR BY ANY OTHER STATE OR FEDERAL AGENCY.

	Public Offering Price	Broker/Dealer Commission (1)	Proceeds to Corporation (2)
Per Share............	$	$	$
Total (3)............	$	$	$

(1) Payable to McKinnon & Company, Inc. (the "Underwriter"), as selling agent for the Corporation. The Corporation has agreed to indemnify the Underwriter against certain civil liabilities, including liabilities under the Securities Act of 1933.

(2) Before deducting expenses payable by the Corporation estimated at approximately $.

(3) Assumes the sale of the entire Shares offered hereby. In the Corporation's prior Subscription Offering, it sold Shares at $5.00 per share for a total of $, paid a financial advisory/standby fee of $ to the Underwriter, and incurred expenses of approximately $, ultimately yielding net proceeds of $.

The Shares are offered by the Underwriter, as selling agent for the Corporation, subject to prior sale, on a best efforts basis, and subject to certain other conditions, including the right to reject any order in whole or in part. This offering will close on or about , 1996, and is not subject to the sale of any minimum number of Shares. Funds received by the Underwriter will be deposited at, and held by, Crestar Bank (the "Escrow Agent") in a noninterest bearing escrow account in Richmond, Virginia. It is expected that delivery of the Shares will be made on or about , 1996.

McKinnon & Company, Inc.

The date of this Prospectus is ______ , 1996.

[MAP of Northern Virginia with branch locations indicated]

AVAILABLE INFORMATION

The Corporation has filed with the Securities and Exchange Commission (the "Commission") a registration statement (the "Registration Statement") under the Securities Act of 1933, as amended, with respect to the Common Stock offered hereby. This Prospectus, which constitutes a part of the Registration Statement, does not contain all of the information set forth in the Registration Statement, certain items of which are omitted as permitted by the rules and regulations of the Commission. Statements made in this Prospectus as to the contents of any agreement or other document referred to herein are not necessarily complete, and reference is made to the copy of such agreement or other document filed as an exhibit or schedule to the Registration Statement and each such statement shall be deemed qualified in its entirety by such reference. For further information, reference is made to the Registration Statement and to the exhibits and schedules filed therewith, which are available for inspection without charge at the public reference facilities maintained by the Commission at Room 1024, 450

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Fifth Street, N.W., Washington, D.C. 20549. Copies of the material containing this information may be obtained from the Commission upon payment of the prescribed fees.

The Corporation is subject to the periodic reporting and other information requirements of the Securities Exchange Act of 1934, as amended. Such reports may be inspected at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices located at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661, and 7 World Trade Center, 13th Floor, New York, New York 10048. Copies of such material may be obtained by mail from the Public Reference Branch of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.

REPORTS TO STOCKHOLDERS

The Corporation will furnish annual reports to its stockholders containing audited financials of the Corporation and any subsidiaries on a consolidated basis, as well as quarterly reports containing unaudited financial information.

PROSPECTUS SUMMARY

The following summary does not purport to be complete and is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, included elsewhere in this Prospectus.

Marathon Financial Corporation

Marathon Financial Corporation (the "Corporation") is a bank holding company headquartered in Frederick County, Virginia. Its banking subsidiary, The Marathon Bank (the "Bank"), began operations in December 1988 in Frederick County, and opened additional branches in Front Royal, Virginia, in 1993 and in Winchester, Virginia in 1995. At June 30, 1996, the Corporation had $41.611 million in assets, $31.596 million in net loans, $37.866 million in deposits, $2.963 million in stockholders' equity, and an operating tax loss carryforward of $3.226 million. During the year ended December 31, 1995, the Corporation's net income grew 32.39% to $421 thousand from $318 thousand in 1994. For the six months ended June 30, 1996, the Corporation's net income increased 71.75% to $304 thousand from $177 thousand for the comparable period in 1995, while total assets increased 28.96% to $41.611 million at June 30, 1996 over the June 30, 1995 level. The annualized return on average assets and average equity for the six months ended June 30, 1996 were 1.61% and 21.55%, respectively. Improvements in the Bank's earnings and size have been consistent since the employment by the Corporation of the current chief executive officer in 1992.

The Corporation experienced significant losses in its first four years of the Bank's operation, including net losses of $529 thousand in 1989, $381 thousand in 1990, $2.748 million in 1991, and $474 thousand in 1992. In late 1991, two significant loans with overdrafts and unusual extensions of credit aggregating approximately $2.1 million were written off, without any subsequent recovery. At December 31, 1991 the Corporation had a negative net worth of $828 thousand, total assets of $15.883 million and a ratio of non-performing assets and past due loans to total loans of 5.85%, which ratio peaked at 10.39% at June 30, 1992. The Corporation was placed under a Memorandum of Understanding by regulatory authorities in 1992 and the Board of Directors of the Corporation accepted the resignations of the president, the chief lending officer and the treasurer of the Corporation in February, April and May 1992, respectively.

In April 1992, the Corporation's Board of Directors recruited Donald L. Unger, a local, well respected banker, to take over as chief executive officer of the Bank. Mr. Unger, with over 25 years of senior banking experience in the Winchester and surrounding markets, had served as chief executive officer and a director of The Peoples Bank of Front Royal, Front Royal, Virginia ("The Peoples Bank"). Under Mr. Unger's leadership, the annual net income of The Peoples Bank steadily increased from approximately $75 thousand in 1980 to $801 thousand in 1991 while, during the same period, assets increased from approximately $10 million to $60 million. Over the 1981-1991 period, the average annual return on equity and average annual return on assets of The Peoples Bank were 17.40% and 1.59%, respectively. This period included the recession years of 1988-1991, when the average annual return on equity and average annual return on assets were 15.72% and 1.40%, respectively. The Peoples Bank was sold to a large statewide bank holding company in 1992.

Prior to hiring Mr. Unger, the Corporation's primary focus was on commercial lending, which was largely unsecured. Under new management, the

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Corporation's loan portfolio, deposit base and general operations were diversified with the goal of reducing the volatility of assets and liabilities, collateralizing the loan portfolio, and transforming the institution into a full service community bank. From December 31, 1991 to June 30, 1996 consumer installment loans increased 882.70% and loans secured by real estate increased 134.44%. The Corporation's loan portfolio stabilized, and at June 30, 1996 the loan mix consisted of 52.24% consumer installment and real property loans and 47.76% commercial loans, a significant portion of which commercial loans were secured by real estate, deposits and marketable securities. The Corporation also began to originate and sell loans in the secondary mortgage market in September 1993, and production and sale has steadily increased from $2.237 million in 1994, to $3.502 million in 1995, and $2.389 million during the first six months of 1996. The Bank emphasized diversifying its deposit base by increasing consumer and commercial deposits and eliminating brokered deposits, which prior to 1991 exceeded the Corporation's non-interest bearing deposits. Average non-interest bearing deposits increased from $909 thousand, representing 6.14% of the Corporation's total deposits at December 31, 1991, to $5.203 million, representing 15.21% of the Corporation's total deposits, at June 30, 1996. This shift substantially impacted the Corporation's cost of funds. As a result of this successful turnaround, the Memorandum of Understanding was terminated on November 23, 1994.

In the first three full years under Mr. Unger's leadership, the Corporation's net income steadily increased to $80 thousand in 1993, $318 thousand in 1994 and $421 thousand in 1995. For the first six months of 1996, net income was $304 thousand. These figures include expenses associated with the opening of two additional branches -

August 1993 in Front Royal and February 1995 in Winchester. Total assets increased from $15.883 million at December 31, 1991 to $41.611 million at June 30, 1996. Non-performing assets to period end loans and other real estate owned declined from 2.94% at December 31, 1991 to 0.93% at June 30, 1996. Additionally, the Corporation has signed a contract to sell its largest piece of other real estate owned to an unrelated purchaser for cash, which is anticipated to close in October 1996. If the transaction is consummated, the Corporation will reduce its portfolio of other real estate owned by more than 90%. The net interest margin increased from 3.67% in 1991 to 6.04% in 1994, was 5.81% in 1995, and for the first six months of 1996 on an annualized basis was 6.14%. Over the same period, the return on average equity increased from negative 175.2% at December 31, 1991 to positive 21.55% on an annualized basis in the first six months of 1996. The return on average assets increased from negative 16.40% to positive 1.61%; the ratio of nonperforming assets to period end loans and other real estate owned decreased from 2.94% to .93%; while net chargeoffs to average loans declined from 16.91% to .01%. The Corporation has significantly more interest rate sensitive assets than liabilities adjustable within 90 days, and, therefore, the net interest margin would be expected to benefit from an increase in interest rates during this 90-day period.

As part of the recapitalization of the Corporation in 1992, the Corporation, in private placements, issued two rounds of Common Stock at $5.00 per share, Convertible Preferred Stock convertible into Common Stock at $5.00 per share (which was mandatorily converted in July 1995) and warrants to purchase Common Stock at $5.00 per share. At June 30, 1996, 200,688 of such warrants were outstanding and exercisable through June 30, 1997.

The Corporation is the only independent community bank headquartered in the City of Winchester or Frederick County, Virginia. The Corporation's primary market is the Northern Shenandoah Valley, which includes Frederick County, where, based on total financial institution deposits at June 30, 1995, it was the fourth largest financial institution with approximately 11% of the market, Warren County, including the Town of Front Royal, where, based on total financial institution deposits at June 30, 1995, it was the ninth largest financial institution with approximately 4% of the market, and the City of Winchester, the largest market in the four county area of Frederick, Warren, Shenandoah and Clarke Counties. Winchester and Front Royal are located at or near the intersections of I-81 and I-66 on the western fringe of the greater Washington-Baltimore Metropolitan Statistical Area, the fourth largest market in the United States.

Seventeen Fortune 500 companies have major manufacturing facilities in the Northern Shenandoah Valley. In addition, Warren County is becoming a significant center, in the Mid-Atlantic region, for manufacturing and distribution due to its proximity to the Virginia Inland Port, a state sponsored facility to expedite truck and rail shipments to the Hampton Roads Port. Pen-Tab Inc. opened a manufacturing and distribution center in the first quarter of 1996 which employs over 270 persons. Toray, Inc. recently broke ground on a $120 million full service manufacturing plant which anticipates employing 120 persons in 1997 and over 500 persons by the year 2000. Major employers in the four

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county area include Valley Health Systems, Inc., National Fruit Products, Inc., Crown Cork and Seal, Automotive Industries Inc., Rubbermaid Commercial Products, General Electric, AT&T Communications, duPont, Inc. and O'Sullivan Corporation.

The Offering

<TABLE>

<S>	<C>
Shares offered........................	A total of 500,000 Shares, of which 100,000 (the "Subscription Shares") will be initially offered in a subscription offering (the "Subscription Offering") to the Corporation's stockholders of record on June 24, 1996 on the basis of one Share for each 12 shares of Common Stock then beneficially owned. The Shares not subscribed for in the Subscription Offering, together with 400,000 additional Shares (collectively, the "Public Offering Shares"; the Subscription Shares and the Public Offering Shares are sometimes collectively referred to herein as the "Shares"), will be offered in a public offering on a best efforts basis by the Underwriter as selling agent for the Corporation, at a price currently anticipated to be between $4.75 and $5.75 per Share. The Corporation reserves the right to increase the total number of Shares offered in the Public Offering by not more than 75,000 Shares. See "Offering to Stockholders" and "Underwriting."

</TABLE>

<TABLE>

<S>	<C>
Common Stock outstanding............	1,306,303 shares at June 30, 1996; 1,806,303 after completion of the Offerings, assuming the sale of all 500,000 Shares and excluding the 75,000 additional Shares that may be offered at the election of the Corporation.
Use of proceeds.......................	To support future growth of the Corporation's assets, including the potential opening of new branches, and for general corporate purposes. See "Use of Proceeds."
Market area...........................	The Corporation's three banking offices, located in Frederick County, the Town of Front Royal and the City of Winchester, operate along the western fringe of Washington-Baltimore Metropolitan Statistical Area, the fourth largest market in the United States.
Proposed NASDAQ symbol................	The Corporation has applied to have its Common Stock approved for listing on the NASDAQ SmallCap Market under the symbol "MFCV."
Dividends.............................	The Corporation has never declared or paid cash dividends and does not anticipate doing so in the foreseeable future. See "Market Price and Dividend Data," "Business - Supervision and Regulation," and "Description of Capital Stock."
Risk Factors..........................	Prospective investors should carefully consider certain factors before purchasing any of the Shares offered in the Offerings. See "Investment Considerations."

</TABLE>

SUMMARY FINANCIAL DATA

The year-end income statement data, the year-end per share data, and the year-end balance sheet data regarding net income contained in the following summary financial data for the five years ended December 31, 1995 are derived from the audited historical consolidated financial statements of the Corporation. The financial data for the six months ended June 30, 1996 and 1995 are derived from unaudited consolidated financial statements. The summary financial data should be read in conjunction with the historical consolidated financial statements and the notes thereto of the Corporation included elsewhere in this Prospectus.

<TABLE>

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<CAPTION>

	Six months ended June 30, 1996	1995	Years ended December 31, 1995	1994	1993	1992	1991
	(Dollars in thousands, except per share data)						
Income Statement Data:							
Net interest income	$ 1,038	$ 777	$ 1,688	$ 1,402	$ 908	$ 593	$ 566
Provision for loan losses	73	16	113	151	12	(88)	2,458
Noninterest income	194	101	281	242	93	111	180
Noninterest expense	855	685	1,435	1,175	909	1,266	1,036
Income tax expense	103	59	143	101	-	-	-
Benefit of net operating loss(1)	(103)	(59)	(143)	(101)	-	-	-
Net income (loss)	$ 304	$ 177	$ 421	$ 318	$ 80	$ (474)	$ (2,748)
Per Share Data:							
Net income (loss)	$ .23	$ .16	$ .35	$ .30	$ .08	$ (.40)	$ (4.51)
Cash dividends	--	--	--	--	--	--	--
Book value at period end	2.27	1.90	2.05	1.75	1.52	1.25	(1.36)
Tangible book value at period end	2.27	1.90	2.05	1.75	1.52	1.25	(1.36)
Balance Sheet Data:							
Total assets	$ 41,611	$ 32,266	$ 36,070	$ 27,682	$ 22,379	$ 16,111	$ 15,883
Loans, net	31,596	26,606	28,774	22,618	18,149	10,828	11,545
Securities	1,691	1,506	1,699	1,490	1,517	2,168	2,572
Deposits	37,866	29,045	32,622	24,604	19,606	13,678	16,391
Stockholders' equity (deficit)	2,963	2,434	2,678	2,244	1,934	1,497	(828)
Average shares outstanding(2)	1,306	1,091	1,192	1,083	1,055	743	615
Performance Ratios(3):							
Return on average assets	1.61%	1.18%	1.31%	1.23%	.42%	(3.10)%	(16.40)%
Return on average equity	21.55	15.13	16.96	15.28	4.51	(90.00)	(175.20)
Net interest margin(4)	6.14	6.21	5.81	6.04	5.38	4.31	3.67
Efficiency(5)	69.40	78.02	72.88	71.47	90.81	179.83	138.87
Asset Quality Ratios:							
Allowance for loan losses to period end loans	1.45%	1.15%	1.35%	1.31%	1.22%	1.78%	3.85%
Allowance for loan losses to nonaccrual loans	725.00	107.27	873.33	111.11	1,184.21	0.00	130.51
Nonperforming assets to period end loans and other real estate owned(6)	0.93(7)	1.07	0.96	1.18	0.10	0.00	2.94
Net charge-offs (recoveries) to average loans	.01	.04	.07	.37	(0.12)	1.63	16.91
Capital and Liquidity Ratios:							
Leverage	7.88%	8.10%	8.32%	8.69%	9.99%	9.38%	(5.21)%
Risk based:							
Tier I capital	9.20	9.19	9.40	10.04	10.67	11.71	(5.45)
Total capital	10.45	10.37	10.60	11.29	11.92	13.30	(3.33)
Average loans to average deposits	90.33%	92.07%	91.57%	91.79%	87.79%	77.70%	84.80%

</TABLE>

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(1) At June 30, 1996, the Corporation had available approximately $3.226 million of an operating tax loss carryforward which could be offset against future income.
(2) All periods have been restated to reflect the stock dividend declared in 1995.
(3) Annualized for the six months ended June 30, 1996 and 1995.
(4) Net interest margin is calculated as net interest income divided by average earning assets and represents the Corporation's net yield on its earning assets.
(5) Computed by dividing noninterest expense by the sum of net interest income and noninterest income, net of securities gains or losses.
(6) Nonperforming assets consist of nonaccrual loans and foreclosed properties.

(7) The Corporation signed a contract to sell its largest piece of other real estate owned to an unrelated purchaser for cash, which is anticipated to close in October 1996. If the transaction is consummated, the Corporation will reduce its portfolio of other real estate owned by more than 90%.

THE CORPORATION

Marathon Financial Corporation (the "Corporation") is a bank holding company headquartered in Frederick County, Virginia. Its banking subsidiary, The Marathon Bank (the "Bank"), began operations in December 1988 in Frederick County, and opened additional branches in Front Royal, Virginia, in 1993 and in Winchester, Virginia in 1995. At June 30, 1996, the Corporation had $41.611

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million in assets, $31.596 million in net loans, $37.866 million in deposits, $2.963 million in stockholders' equity, and an operating tax loss carryforward of $3.226 million. During the year ended December 31, 1995, the Corporation's net income grew 32.39% to $421 thousand from $318 thousand in 1994. For the six months ended June 30, 1996, the Corporation's net income increased 71.75% to $304 thousand from $177 thousand for the comparable period in 1995, while total assets increased 28.96% to $41.611 million at June 30, 1996 over the June 30, 1995 level. The annualized return on average assets and average equity for the six months ended June 30, 1996 were 1.61% and 21.55%, respectively. Improvements in the Bank's earnings and size have been consistent since the employment by the Corporation of the current chief executive officer in 1992.

The Corporation experienced significant losses in its first four years of the Bank's operation, including net losses of $529 thousand in 1989, $381 thousand in 1990, $2.748 million in 1991, and $474 thousand in 1992. In late 1991, two significant loans with overdrafts and unusual extensions of credit aggregating approximately $2.1 million were written off, without any subsequent recovery. At December 31, 1991 the Corporation had a negative net worth of $828 thousand, total assets of $15.883 million and a ratio of non-performing assets and past due loans to total loans of 5.85%, which ratio peaked at 10.39% at June 30, 1992. The Corporation was placed under a Memorandum of Understanding by regulatory authorities in 1992 and the Board of Directors of the Corporation accepted the resignations of the president, the chief lending officer and the treasurer of the Corporation in February, April and May 1992, respectively.

In April 1992, the Corporation's Board of Directors recruited Donald L. Unger, a local, well respected banker, to take over as chief executive officer of the Bank. Mr. Unger, with over 25 years of senior banking experience in the Winchester and surrounding markets, had served as chief executive officer and a director of The Peoples Bank of Front Royal, Front Royal, Virginia ("The Peoples Bank"). Under Mr. Unger's leadership, the net income of The Peoples Bank steadily increased from approximately $75 thousand in 1980 to $801 thousand in 1991 while, during the same period, assets increased from approximately $10 million to $60 million. Over the 1981-1991 period, the average annual return on equity and average annual return on assets of The Peoples Bank were 17.40% and 1.59%, respectively. This period included the recession years of 1988-1991, when the average annual return on equity and average annual return on assets were 15.72% and 1.40%, respectively. The Peoples Bank was sold to a large statewide bank holding company in 1992.

Prior to hiring Mr. Unger, the Corporation's primary focus was on commercial lending, which was largely unsecured. Under new management, the Corporation's loan portfolio, deposit base and general operations were diversified with the goal of reducing the volatility of assets and liabilities, collateralizing the loan portfolio, and transforming the institution into a full service community bank. From December 31, 1991 to June 30, 1996 consumer installment loans increased 882.70% and loans secured by real estate increased 134.44%. The Corporation's loan portfolio stabilized, and at June 30, 1996 the loan mix consisted of 52.24% consumer installment and real property loans and 47.76% commercial loans, a significant portion of which commercial loans were secured by real estate, deposits and marketable securities. The Corporation also began to originate and sell loans in the secondary mortgage market in September 1993, and production and sale has steadily increased from $2.237 million in 1994, to $3.502 million in 1995, and $2.389 million during the first six months of 1996. The Bank emphasized diversifying its deposit base by increasing consumer and commercial deposits and eliminating brokered deposits, which prior to 1991 exceeded the Corporation's non-interest bearing deposits. Average non-interest bearing deposits increased from $909 thousand, representing 6.14% of the Corporation's total deposits at December 31, 1991, to $5.203 million, representing 15.21% of the Corporation's total deposits, at June 30, 1996. This shift substantially impacted the Corporation's cost of funds. As a result of this successful turnaround, the Memorandum of Understanding was terminated on November 23, 1994.

In the first three full years under Mr. Unger's leadership, the Corporation's net income steadily increased to $80 thousand in 1993, $318 thousand in 1994 and $421 thousand in 1995. For the first six months of 1996, net income was $304 thousand. These figures include expenses associated with the opening of two additional branches - August 1993 in Front Royal and February 1995 in Winchester. Total assets increased from $15.883 million at December 31, 1991 to $41.611 million at June 30, 1996. Non-performing assets to period end loans and other real estate owned declined from 2.94% at December 31, 1991 to 0.93% at June 30, 1996. Additionally, the Corporation has signed a contract to sell its largest piece of other real estate owned to an unrelated purchaser for cash, which is anticipated to close in October 1996. If the transaction is consummated, the Corporation will reduce its portfolio of other real estate owned by more than 90%. The net interest margin increased from 3.67% in 1991 to 6.04% in 1994, was 5.81% in 1995, and for the first six months of 1996 on an

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annualized basis was 6.14%. Over the same period, the return on average equity increased from negative 175.2% at December 31, 1991 to positive 21.55% on an annualized basis in the first six months of 1996. The return on average assets increased from negative 16.40% to positive 1.61%; the ratio of nonperforming assets to period end loans and other real estate owned decreased from 2.94% to .93%; while net chargeoffs to average loans declined from 16.91% to .01%. The Corporation has significantly more interest rate sensitive assets than liabilities adjustable within 90 days, and, therefore, the net interest margin would be expected to benefit from an increase in interest rates during this 90-day period.

As part of the recapitalization of the Corporation in 1992, the Corporation, in private placements, issued two rounds of Common Stock at $5.00 per share, Convertible Preferred Stock convertible into Common Stock at $5.00 per share (which was mandatorily converted in July 1995) and warrants to purchase Common Stock at $5.00 per share. At June 30, 1996, 200,688 of such warrants were outstanding and exercisable through June 30, 1997.

The Corporation is the only independent community bank headquartered in the City of Winchester or Frederick County, Virginia. The Corporation's primary market is the Northern Shenandoah Valley, which includes Frederick County, where, based on total financial institution deposits at June 30, 1995, it was the fourth largest financial institution with approximately 11% of the market, Warren County, including the Town of Front Royal, where, based on total financial institution deposits at June 30, 1995, it was the ninth largest financial institution with approximately 4% of the market, and the City of Winchester, the largest market in the four county area of Frederick, Warren, Shenandoah and Clarke Counties. Winchester and Front Royal are located at or near the intersections of I-81 and I-66 on the western fringe of the greater Washington-Baltimore Metropolitan Statistical Area, the fourth largest market in the United States.

Seventeen Fortune 500 companies have major manufacturing facilities in the Northern Shenandoah Valley. In addition, Warren County is becoming a significant center, in the Mid-Atlantic region, for manufacturing and distribution due to its proximity to the Virginia Inland Port, a state sponsored facility to expedite truck and rail shipments to the Hampton Roads Port. Pen-Tab Inc. opened a manufacturing and distribution center in the first quarter of 1996 which employs over 270 persons. Toray, Inc. recently broke ground on a $120 million full service manufacturing plant which anticipates employing 120 persons in 1997 and over 500 persons by the year 2000. Major employers in the four county area include Valley Health Systems, Inc., National Fruit Products, Inc., Crown Cork and Seal, Automotive Industries Inc., Rubbermaid Commercial Products, General Electric, AT&T Communications, duPont, Inc. and O'Sullivan Corporation.

The directors of the Corporation have agreed with the Underwriter to a standard requirement not to sell or otherwise dispose of any shares of Common Stock for a period of 120 days after the commencement of the Offerings without the prior written consent of the Underwriter. It is anticipated that the Underwriter will not give its consent to any sales or dispositions during this period that, in its opinion, may have an adverse effect on the market price of the Common Stock. After the expiration of the 120 day period, sales of Common Stock by these individuals may have an adverse effect on the market price. Officers of the Bank who are not directors have not entered into any agreements restricting sales of their Common Stock in the Bank. See "Underwriting."

The Bank is chartered under the laws of the Commonwealth of Virginia and is a member of the Federal Reserve System. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"), and the

Bank is subject to the supervision, examination, and regulation of the Board of Governors of the Federal Reserve System (the "Federal Reserve") and the Virginia Bureau of Financial Institutions.

The Corporation's headquarters is located at 4095 Valley Pike, Winchester, Virginia 22602 and its telephone number is (540) 869-6600.

INVESTMENT CONSIDERATIONS

In addition to the other information in this Prospectus, prospective investors should carefully consider the following factors before purchasing shares of Common Stock offered hereby.

Dependence on Key Personnel. The Corporation is substantially dependent upon the services of Donald L. Unger, its President and Chief Executive Officer. The loss of the services of Mr. Unger could have a material adverse effect upon the future prospects of the Corporation. The Corporation

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has entered into an employment agreement with Mr. Unger and maintains a "key" man insurance policy insuring his life in the amount of $1 million. See "Management - Chief Executive Officer Employment Agreement and Incentive Bonus Plan."

Competition. The banking business in the area served by the Corporation (the Counties of Frederick, Clarke, Shenandoah, and Warren (including the Town of Front Royal), Virginia and the City of Winchester) is highly competitive with respect to both loans and deposits. In the Corporation's primary service area, there are approximately eleven commercial banks and savings and loans (including seven large, Virginia-wide banks with multiple offices) offering services ranging from deposits and real estate loans to full service banking. The Bank is the newest and smallest commercial bank in its service area, in addition, there can be no assurance that other financial institutions, with substantially greater resources than the Corporation, will not establish operations in the Corporation's service area.

Governmental Regulation. The Corporation is subject to extensive governmental supervision, regulation, and control, and future legislation and governmental policy could adversely affect the banking industry and the operations of the Bank. Regulations affecting the banking industry may be changed at any time, and the interpretation of those regulations by examining authorities of the banking industry is also subject to change. There can be no assurance that future changes in legislation and administrative regulations or government policies will not adversely affect the banking industry and the business of the Bank. See "Business - Supervision and Regulation."

No Assurance of Established Public Trading Market. The Corporation has applied to have its Common Stock approved for listing on the NASDAQ SmallCap Market; however, there can be no assurance that an active trading market for the Corporation's Common Stock will develop after the Offerings, or if developed, that such a market will be sustained. The market price of the Common Stock may fluctuate substantially and may be adversely affected by factors that may or may not be related to the Corporation's performance. Such factors may include interest rates and conditions in the banking industry, the stock market, and the economy in general.

Geographic Concentration of Loans. The vast majority of the Bank's loans are made to borrowers within Winchester, Front Royal and Frederick County, Virginia, and adjacent areas. Accordingly, a major downturn in the local economy could adversely affect the Corporation's loan portfolio.

Uncertainties Regarding Growth. The Corporation has experienced substantial growth in the last few years. Although the Corporation plans to continue growing at a significant rate in the future, there can be no guarantee that the recent rate can be maintained. If such anticipated growth does occur, management will have to continue administering the Corporation's operations in an efficient and productive manner consistent with its recent past practices.

Payment of Cash Dividends. The Corporation has never paid any cash dividends. The ability of the Corporation to pay cash dividends is subject to both federal and state banking regulations. The Bank will not be able to and does not intend to pay any dividends in the foreseeable future. See "Market Price and Dividend Data" and "Business - Supervision and Regulation - Limits on Dividends and Other Payments."

Determination of Offering Price. The offering price of the Shares has been determined in large part by negotiation between the Corporation and the Underwriter based upon certain factors, including an evaluation of assets, earnings, and other established criteria of value, as well as the comparisons of the relationships between market prices and book values of other banking institutions of a similar size and asset quality. There can be no assurance that the Shares can be resold at the offering price. See "Market Price and Dividend Data" and "Underwriting."

No Minimum Offering. The Underwriter is selling the Shares on a best efforts basis, which means that it may sell all, none or only some of the Shares. As there is no minimum number of Shares that must be sold, a closing of the Offerings could occur even if only a small number of Shares is sold. In such event, the Corporation may not raise sufficient funds to support future asset growth or open new branches. See "Use of Proceeds" and "Underwriting."

Conflicts of Interest. The Corporation has engaged in certain transactions with certain directors and executive officers, which may present certain conflicts of interest. See "Management--Indebtedness and Other Transactions."

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Influence by Management. The Corporation's directors and executive officers together beneficially own 34.45% of the Corporation's outstanding common stock prior to the Offerings, and after the Offerings, the directors and executive officers will continue to own a substantial portion of the Company's common stock. As a result, these directors and executive officers, if acting together, will be able to strongly influence matters requiring approval by the shareholders of the Corporation, including the election of directors. See "Management--Security Ownership of Management."

No Independent Counsel. The Corporation and the Underwriter are both represented by Kaufman & Canoles, and, accordingly, neither the Corporation nor the Underwriter has the benefit of independent representation. In the event the interests of the Corporation and the Underwriter diverge, each of them will be required to obtain other legal counsel. See "Legal Matters."

OFFERING TO STOCKHOLDERS

The Bank is offering 100,000 Shares in the Subscription Offering until September 24, 1996, to the holders of its Common Stock of record on June 24, 1996 (the "Record Date") at the price of $5.00 per Share. Stockholders of record at the close of business on the Record Date may purchase Shares on the basis of one Share for each 12 shares of Common Stock beneficially owned by them on such date. Fractional Shares will not be sold, but stockholders may round any such fraction up to a full Share, and stockholders may oversubscribe. Stockholders also may subscribe for less than the maximum number of Shares allocated to them.

USE OF PROCEEDS

The net proceeds to be received by the Corporation from the offering, after deduction of underwriting fees and commissions and estimated expenses, will be used to support future asset growth, including the potential opening of new branches, and for general corporate purposes.

CAPITALIZATION

The following table sets forth the capitalization of the Corporation at June 30, 1996. The table should be read in conjunction with the financial statements and related notes thereto included elsewhere in this Prospectus.

	June 30, 1996 (Dollars in thousands)
Stockholders' equity:	
Preferred stock, Series A, 5% noncumulative, no par value; 1,000,000 shares authorized; no shares issued and outstanding(1)	$ -
Common Stock, $1.00 par value, 20,000,000 shares authorized, 1,306,303 shares issued and outstanding(2)(3)..	1,306
Capital surplus...	5,110
Retained Earnings (Deficit).......................................	(3,443)
Unrealized gain (loss) on securities available for sale...........	(10)
Total stockholders' equity..................................	$ 2,963

(1) In July 1995, all of the Corporation's then outstanding convertible preferred stock was mandatorily converted into Common Stock.

(2) In addition, there are outstanding warrants to purchase 200,688 shares of the Corporation's Common Stock at $5.00 per share exercisable through June 30, 1997 and options to purchase 500 shares of the Corporation's Common Stock at $5.00 per share exercisable through June 1, 1997.

(3) In August 1996, the Corporation's Board of Directors approved creation of an employee and director stock option plan, and awards have been

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approved under such plan in the aggregate amount of 141,875 shares, 68,125 of which will be exercisable immediately upon shareholder approval.

MARKET PRICE AND DIVIDEND DATA

The Corporation has applied to have the Common Stock approved for listing on the NASDAQ SmallCap Market under the symbol "MFCV" effective upon the closing of the Offerings; however, there can be no assurance that an active trading market for the Corporation's Common Stock will develop after the Offerings, or if developed, that such a market will be sustained. There is no recognized market for the Corporation's common stock. There are occasional transactions in the stock and the Corporation's management has assisted in matching persons interested in buying and selling common stock. In July 1995, all of the Corporation's convertible preferred stock was mandatorily converted to Common Stock at the conversion price of $5.00 per share. The sporadic trades in the Common Stock during the past year and a half have been at or about $5.00 per share. At June 30, 1996 the Corporation had approximately 792 stockholders of record (approximately 850 beneficial holders).

The book value of the Corporation's Common Stock at June 30, 1996 was $2.27 per share. At June 30, 1996, Corporation's operating tax loss carryforward was $3.226 million.

The Corporation has paid no cash dividends to date. Holders of the Corporation's Common Stock will be entitled to dividends at such rate as may be determined from time to time by the Board of Directors of the Corporation. The Virginia Stock Corporation Act provides that a corporation may pay a cash dividend to its shareholders so long as, after giving effect to such dividend, the corporation will be able to pay its debts as they become due and the value of the Corporation's assets exceeds its liabilities (plus the amount, if any, necessary to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those shareholders receiving the dividend). The Corporation's future dividends will depend on its earnings and those of the Bank, general economic conditions, and other factors affecting dividend policy.

Under state law, without the consent of the Bureau of Financial Institutions, the Bank may not pay dividends until it has restored any deficit in its capital funds as originally paid in. Further, a regulation promulgated by the Board of Governors of the Federal Reserve System requires approval of two-thirds of the holders of the Corporation's shares prior to payment of a dividend until any deficit in the Bank's capital account has been restored.

While the Corporation has not been permitted to pay cash dividends, it did issue one stock dividend. On December 19, 1995, the Corporation declared a stock dividend for holders of Common Stock for year-end 1995. The stock dividend declared was 15% of 1995 profits, which was $.04873 per share. The dividend was paid in the first quarter of 1996. The stock dividend assumed a value of $5.00 per share. The Corporation obtained approval from the regulators prior to issuing said shares in compliance with Virginia Code Section 6.1-56, which requires prior approval because of impaired capital.

SELECTED FINANCIAL DATA

The year-end income statement data, the year-end per share data, and the year-end balance sheet data regarding net income contained in the following selected financial data for the five years ended December 31, 1995 are derived from the audited historical consolidated financial statements of the Corporation. The financial data for the six months ended June 30, 1996 and 1995 are derived from unaudited consolidated financial statements. The selected financial data should be read in conjunction with the consolidated financial statements of the Corporation included elsewhere in this Prospectus.

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	Six months ended June 30,		Years ended December 31,				
	1996	1995	1995	1994	1993	1992	1991
			(Dollars in thousands, except per share data)				
<S> <C>							
Income Statement Data:							
Interest income	$ 1,778	$ 1,343	$ 2,940	$ 2,251	$ 1,625	$ 1,361	$ 1,580
Interest expense	740	566	1,252	849	717	768	1,014
Net interest income	1,038	777	1,688	1,402	908	593	566
Provision for loan losses	73	16	113	151	12	(88)	2,458
Net interest income after provision for loan losses	965	761	1,575	1,251	896	681	(1,892)
Noninterest income	194	101	281	242	93	111	180
Noninterest expense	855	685	1,435	1,175	909	1,266	1,036
Income (loss) before income taxes	304	177	421	318	80	(474)	(2,748)
Income tax expense	103	59	143	101	--	--	--
Benefit of net operating loss(1)	(103)	(59)	(143)	(101)	--	--	--
Net income (loss)	$ 304	$ 177	$ 421	$ 318	$ 80	$ (474)	$ (2,748)
Per Share Data:							
Net income (loss)	$ .23	$ .16	$ .35	$ .30	$ .08	$ (.40)	$ (4.51)
Cash dividends	--	--	--	--	--	--	--
Book value at period end	2.27	1.90	2.05	1.75	1.52	1.25	(1.36)
Tangible book value at period end	2.27	1.90	2.05	1.75	1.52	1.25	(1.36)
Balance Sheet Data:							
Total assets	$ 41,611	$ 32,266	$ 36,070	$ 27,682	$ 22,379	$ 16,111	$ 15,883
Loans, net	31,596	26,606	28,774	22,618	18,149	10,828	11,545
Securities	1,691	1,506	1,699	1,490	1,517	2,168	2,572
Deposits	37,866	29,045	32,622	24,604	19,606	13,678	16,391
Stockholders' equity (deficit)	2,983	2,434	2,678	2,244	1,934	1,497	(828)
Average shares outstanding(2)	1,306	1,091	1,192	1,083	1,055	743	615
Performance Ratios(3):							
Return on average assets	1.61%	1.18%	1.31%	1.23%	.42%	(3.10)%	(16.40)%
Return on average equity	21.55	15.13	16.96	15.28	4.51	(90.00)	(175.20)
Net interest margin(4)	6.14	6.21	5.81	6.04	5.38	4.31	3.67
Efficiency(5)	69.40	78.02	72.88	71.47	90.81	179.83	138.87
Asset Quality Ratios:							
Allowance for loan losses to period end loans	1.45%	1.15%	1.35%	1.31%	1.22%	1.78%	3.85%
Allowance for loan losses to nonaccrual loans	725.00	107.27	873.33	111.11	1,184.21	0.00	130.51
Nonperforming assets to period end loans and other real estate owned(6)	0.93(7)	1.07	0.96	1.18	0.10	0.00	2.94
Net charge-offs (recoveries) to average loans	.01	.04	.07	.37	(0.12)	1.63	16.91
Capital and Liquidity Ratios:							
Leverage	7.88%	8.10%	8.32%	8.69%	9.99%	9.38%	(5.21)%
Risk based:							
Tier I capital	9.20	9.19	9.40	10.04	10.67	11.71	(5.45)
Total capital	10.45	10.37	10.60	11.29	11.92	13.30	(3.33)
Average loans to average deposits	90.33%	92.07%	91.57%	91.79%	87.79%	77.70%	84.80%

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(1) At June 30, 1996, the Corporation had available approximately $3.226 million of an operating tax loss carryforward which could be offset against future income.
(2) All periods have been restated to reflect the stock dividend declared in 1995.
(3) Annualized for the six months ended June 30, 1996 and 1995.
(4) Net interest margin is calculated as net interest income divided by average earning assets and represents the Corporation's net yield on its earning assets.
(5) Computed by dividing noninterest expense by the sum of net interest income and noninterest income, net of securities gains or losses.
(6) Nonperforming assets consist of nonaccrual loans and foreclosed properties.

(7) The Corporation signed a contract to sell its largest piece of other real estate owned to an unrelated purchaser for cash, which is anticipated to close in October 1996. If the transaction is consummated, the Corporation will reduce its portfolio of other real estate owned by more than 90%.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS OF MARATHON FINANCIAL CORPORATION

The following discussion is intended to assist readers in understanding and evaluating the financial condition and results of operations of the Corporation. This review should be read in conjunction with the Corporation's financial statements and accompanying notes included elsewhere herein. This analysis provides an overview of the significant changes that occurred during the periods presented.

Overview

The Corporation's performance for the first six months of 1996 showed an improvement over the same period a year ago. Net income increased 71.75% in the first half of 1996 to $304 thousand compared to $177 thousand during the same period of 1995. This increase in earnings was primarily due to higher net interest income resulting from increased loan growth.

Return on average equity on an annualized basis during the first six months of 1996 increased to 21.55%, up from 15.13% for the same period in 1995. Return on average assets on an annualized basis was 1.61% during this period compared to 1.18% for the first six months of 1995. These performance figures had been at extremely low levels in 1991 and 1992 due to a provision for loan losses of $2.1 million related primarily to two unsecured loans in 1991, and increases in nonperforming assets in the first half of 1992, as a result of prior management's lending practices, before beginning to improve in the second half of 1992 under a new management team. Return on average assets was negative 16.40% and negative 3.10% in 1991 and 1992, respectively, and increased steadily thereafter to positive 0.42% in 1993, to 1.23% in 1994, and to 1.31% in 1995. Return on average equity, likewise, was negative 175.20% and negative 90.0% in 1991 and 1992, respectively, before increasing steadily to 4.51% in 1993, 15.28% in 1994 and 16.96% in 1995.

The Corporation experienced limited loan growth from 1990 through 1992 until, under a new chief executive officer and management team, improvement began in 1993. In 1991, average total assets increased 18.15% to $16.723 million from $14.154 million in 1990, and declined in 1992 to $15.439 million, a 7.68% decrease from the prior year. Average total assets increased to $19.184 million in 1993, up 24.26%, and continued to increase in 1994 to $25.869 million, up 34.85% from the prior year, and in 1995 to $32.090 million, up 24.05% from the prior year, and, for the first six months of 1996 to $37.739 million, up 26.03% over the comparable period of 1995. This increase in average assets subsequent to 1992 was, under the new chief executive officer, the result of new branches opened in 1993 and 1995 in Front Royal and Winchester, Virginia, respectively, and an emphasis on consumer and secured commercial loan growth. Average loans were also relatively flat in the 1990-1992 period, with an increase of 26.33% in 1991 to $12.454 million from $9.858 million in 1990 and a subsequent decline to $10.948 million in 1992, down 12.09% from the prior year. Average total earning assets increased 22.83% in 1993 to $16.890 million from the prior year, and to $23.225 million in 1994, up 37.51% over 1993, and to $29.040 million in 1995, up 25.04% over 1994, and, for the first six months of 1996 to $33.776 million, up 34.98% over the comparable period of 1995. Average installment loans increased steadily from $1.403 million at December 31, 1993 to $6.902 million at June 30, 1996, an increase of 391.95%. Both commercial and real estate loans also escalated over the same period. Average commercial loans increased to $13.940 million for the six months ended June 30, 1996, a rise of 68.99% over the average amount of commercial loans in 1993. Similarly, average real estate loans grew to $10.055 million for the six months ended June 30, 1996, an increase of 106.72% over the average amount of real estate loans in 1993.

Non-performing assets and past due loans to total loans peaked at 10.39% at June 30, 1992, and net charge-offs peaked in 1991 at $2.106 million, primarily from the charge-off of two loans. Non-performing assets at June 30, 1996, were $300 thousand, or 0.93% of period end loans and other real estate owned, and the allowance for loan losses was $464 thousand. The allowance for loan losses to period end loans at June 30, 1996 was 1.45% and net charge-offs to average loans in the first six months of 1996, annualized, was 0.01%. The provision for loan losses in the first six months of 1996 was $73 thousand, up 356.25% from $16 thousand in the comparable period

of 1995, while net charge-offs were $2 thousand versus $5 thousand in the first half of 1995. In November 1994, the Corporation was released from the Written Agreement that it entered into in 1992 with the Federal Reserve and the Virginia Bureau of Financial Institutions.

On an annualized basis, the Corporation's net interest margin declined slightly to 6.14% in the first half of 1996, from 6.21% during the same period

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of 1995. Net interest margin had increased to 6.04% in 1994 from 5.38% in 1993 and 4.31% in 1992. In a period of declining market interest rates, as a result of the Corporation's increased loan demand, a decline in its average cost of interest bearing liabilities, an increase in its non-interest bearing deposits and a shift from securities into higher yielding loans, the Corporation's net interest margin increased in 1994 over the 1993 level. In 1995 the net interest margin declined slightly to 5.81% from 6.04% in 1994 under rising interest rates, as the cost of interest bearing liabilities rose more than the increase in yields on interest earning assets. In the first six months of 1996 an increase in average loan volume was partially offset by an increase in the average cost of funds required to support this growth and a decline in the average yield in earning assets.

Recent Developments

The Corporation signed a contract to sell its largest piece of other real estate owned to an unrelated purchaser for cash, which is anticipated to close in October 1996. If the transaction is consummated, the Corporation will reduce its portfolio of other real estate owned by more than 90%.

Net Interest Income

Net interest income is the major component of the Corporation's earnings and is equal to the amount by which interest income exceeds interest expense. Earning assets are composed primarily of loans and securities, while deposits and short-term borrowings represent the major portion of interest-bearing liabilities. Changes in volume and mix in assets and liabilities, as well as changes in the yields and rates paid, determine changes in net interest income. Net interest margin is calculated by dividing net interest income by average earning assets and represents the Corporation's net yield on earning assets.

Net interest income was $1.037 million in the first half of 1996, 33.59% greater than the $777 thousand reported during the comparable period of 1995. The improvement in net interest income was primarily due to volume increases in the loan portfolio, as the loan demand, continued to increase. The average balance of the loan portfolio was $30.897 million for the first six months ended June 30, 1996, up $6.391 million, or 26.08%, over the same period in 1995. The average balances of installment and commercial loans were $6.902 million and $13.940 million, respectively, for the six months ended June 30, 1996, up 60.51% and 13.98% respectively, over the same period of 1995. The average balance of the securities portfolio was $1.627 million for the six months ended June 30, 1996, up 7.68% over the comparable 1995 period. Despite lower interest rates in the first half of 1996 than in the comparable period of 1995, the average yield on loans increased 50 basis points from 10.48% in 1995 to 10.98% in 1996 with an increase of 107 basis points on real estate loan yields and an increase of 48 basis points in the average yields on commercial loans offsetting a decline of 48 basis points in the average yields on installment loans. However, an increase in average federal funds sold of 142.17% to $1.252 million coupled with a decline in average yields on federal funds sold of 108 basis points to 5.11% produced a slight decline of 20 basis points in the average yield on total interest earning assets to 10.53% from 10.73% in 1995. The average level of interest earning assets increased 34.98% to $33.776 million. Despite the decline of interest rates the average cost of funds to support the growth in interest increased. Total interest bearing liabilities increased 27.20% to $29.637 million led by a 35.28% increase in certificates of deposit under $100,000 to $15.162 million and a 29.47% increase in money market savings to $3.185 million and a 33.96% increase in interest checking accounts to $2.154 million. The average costs of interest bearing liabilities increased 14 basis points to 5.00% from 4.86%. This increase was led by a 6 basis point rise in the average cost of certificates of deposit under $100,000 and a 49 basis point increase in the average cost of money market certificates to 3.58%. A 28.34% increase in non interest bearing deposits to $5.203 million partially mitigated the rise in the costs of interest bearing deposits but the net interest margin declined from 6.21% in 1995's first half to 6.14% in 1996's comparable period. The increase in the average costs of interest bearing

deposits and the decline in the yield on interest earning assets offset the volume gains in loans, particularly commercial and installment loans.

Net interest income was $1.688 million in 1995, 20.40% greater than the $1.402 million reported in 1994. The improvement in net interest income was primarily due to volume and interest rate increases in the loan portfolio, particularly installment and real estate loans. The average balance of loans increased 25.56%, led by a 74.69% increase in installment loans and a 36.68% increase in real estate loans. The average balance of the securities portfolio

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declined 1.19%. Average balances of interest earning assets increased 25.04% to $29.040 million. The average yields on interest earning assets increased 43 basis points from 9.69% in 1994 to 10.12% in 1995 led by a 46 basis point increase in the average yield on loans to 10.57% which offset a 92 basis point decline in the average yield on securities. Commercial, real estate and installment loan yields increased 36, 79 and 43 basis points, respectively. Total interest bearing liabilities increased 26.53% to $25.411 million while the average rates paid on interest bearing liabilities increased 70 basis points to 4.93%, with the cost of interest bearing deposits increasing 73 basis points. The greater increase in the rates paid for interest bearing deposits than in the yields earned on interest earning assets produced a decline in the net interest margin from 6.04% in 1994 to 5.81% in 1995.

Net interest income in 1994 compared to 1993 increased $494 thousand, or 54.41%, to $1.402 million. This increase in net interest income was due primarily to volume increases in the loan portfolio. The average balance of loans increased 44.65% to $20.997 million, with commercial loans up 42.81%, real estate loans up 30.53% and installment loans up 104.42%. The average balance of the securities portfolio declined 12.68% to $1.515 million. The average yield earned on interest earning assets increased 7 basis points to 10.11% despite generally declining interest rates. The yield on loans increased 2 basis points to 9.69% led by a 21 basis point increase in the yields on real estate loans while yields on commercial and installment loans declined. The average yield on the securities portfolio declined 145 basis points which was somewhat offset by an increase of 68 basis points in the yields earned on federal funds sold. Total interest bearing liabilities increased 32.39% to $20.083 million while the average rates paid on interest earning assets declined 50 basis points to 4.23%. The decline in the rates paid on interest earning assets coupled with the actual increase in the average rate earned on interest earning assets and the higher relative growth in interest earning assets over the increase in interest bearing liabilities produced an increase in the net interest margin from 5.38% in 1993 to 6.04% in 1994.

The following table illustrates average balances of total interest earning assets and total interest bearing liabilities for the periods indicated, showing the distribution of assets, liabilities, stockholder's equity, and the related income, expense, and corresponding weighted average yields and costs. The average balances used for the purpose of these tables and other statistical disclosures were calculated by using the daily average balances. Due to the net operating loss carryforwards available, the Corporation currently does not pay income taxes; therefore, income and yields are not reflected on a tax equivalent basis.

Average Balances, Interest Income and Expenses, and Average Yields and Rates

<TABLE>
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	Six months Ended June 30,			Years Ended December 31,					
	1996			1995			1994		
	Average balance	Interest income/ expense	Average yield/ rate	Average balance	Interest income/ expense	Average yield/ rate	Average balance	Interest income/ expense	Average yield/ rate
	(Dollars in thousands)								
<S> <C>									
Assets:									
Interest bearing assets:									
Securities....................	$ 1,627	$ 50	6.15%	$ 1,497	$ 87	5.81%	$ 1,515	$ 102	6.73%
Loans(1):									
Commercial..................	13,940	772	11.08	12,676	1,386	10.93	11,780	1,245	10.57
Real estate.................	10,055	544	10.82	8,678	872	10.05	6,349	588	9.26
Installment.................	6,902	380	11.01	5,010	528	10.54	2,868	290	10.11
Total Loans...............	30,897	1,696	10.98	26,364	2,786	10.57	20,997	2,123	10.11
Federal funds sold............	1,252	32	5.11	1,179	67	5.68	713	26	3.65
Total earning assets......	33,776	1,778	10.53	29,040	2,940	10.12	23,225	2,251	9.69
Less: Allowance for loan losses	(423)			(324)			(260)		
Total noninterest earning assets	4,386			3,374			2,904		
Total Assets....................	$37,739			$32,090			$25,869		
Liabilities and stockholders equity:									
Interest bearing liabilities:									
Interest bearing deposits:									

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Interest checking...........	$ 2,154	$ 30	2.79%	$ 1,756	$ 48	2.73%	$ 1,375	$ 39	2.84%
Regular savings.............	4,823	80	3.32	5,009	158	3.15	6,543	212	3.24
Money market savings........	3,185	57	3.58	2,661	93	3.49	2,356	86	3.65
Certificates of deposit:									
$100,000 and over.........	3,679	105	5.71	2,843	166	5.84	1,277	46	3.60
Under $100,000............	15,162	446	5.88	12,488	738	5.91	7,870	419	5.32
Total interest bearing deposits................	29,003	718	4.95	24,757	1,203	4.86	19,421	802	4.13
Short-term borrowings.........	28	1	7.14	25	1	4.00	83	4	4.82
Mortgage payable..............	502	18	7.17	519	39	7.51	539	40	7.42
Capital lease payable.........	104	4	7.69	110	9	8.18	40	3	7.50
Total interest bearing liabilities.................	29,637	741	5.00	25,411	1,252	4.93	20,083	849	4.23
Non interest bearing liabilities:									
Demand deposits.............	5,203			4,034			3,455		
Other liabilities...........	78			165			250		
Total noninterest liabilities.............	5,281			4,199			3,705		
Total liabilities.............	34,918			29,610			23,788		
Stockholders' equity..........	2,821			2,480			2,081		
Total Liabilities and Stockholders' equity........	$37,739			$32,090			$25,869		
Net interest income...........		$1,037			$1,688			$1,402	
Interest rate spread (2)......			5.53%			5.19%			5.46%
Interest expense as a percent of average earning assets......			4.39%			4.31%			3.66%
Net interest margin (3).......			6.14%			5.81%			6.04%

</TABLE>

	1993		
	Average balances	Interest income/ expense	Average yield/ rate
Assets:			
Interest bearing assets:			
Securities....................	$ 1,735	$ 142	8.18%
Loans(1):			
Commercial..................	8,249	877	10.63
Real estate.................	4,864	440	9.05
Installment.................	1,403	147	10.48
Total Loans...............	14,516	1,464	10.09
Federal funds sold............	639	19	2.97
Total earning assets......	16,890	1,625	9.62
Less: Allowance for loan losses	(212)		
Total noninterest earning assets	2,506		
Total Assets....................	$19,184		
Liabilities and stockholders equity:			
Interest bearing liabilities:			
Interest bearing deposits:			
Interest checking...........	$ 814	$ 24	2.95%
Regular savings.............	4,721	193	4.09
Money market savings........	2,471	81	3.28
Certificates of deposit:			
$100,000 and over.........	773	43	5.56
Under $100,000............	5,846	321	5.49
Total interest bearing deposits................	14,625	662	4.53
Short-term borrowings.........	-	-	0.00
Mortgage payable..............	545	55	10.09
Capital lease payable.........	-	-	0.00
Total interest bearing liabilities.................	15,170	717	4.73
Non interest bearing liabilities:			
Demand deposits.............	1,909		
Other liabilities...........	333		
Total noninterest			

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liabilities............	2,242		
Total liabilities............	17,412		
Stockholders' equity..........	1,772		
Total Liabilities and Stockholders' equity........	$19,184		
Net interest income...........		$ 908	
Interest rate spread (2)......			4.89%
Interest expense as a percent of average earning assets......			4.25%
Net interest margin (3).......			5.38%

----

(1) Nonaccruing loans are included in average loans outstanding.

(2) Interest spread is the average yield earned on earning assets less the average rate incurred on interest-bearing liabilities.

(3) Net interest margin is net interest income expressed as a percentage of average earnings assets.

The following table describes the impact on the interest income of the Corporation resulting from changes in average balances and average rates for the periods indicated. The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Volume and Rate Analysis

<TABLE>
<CAPTION>

	June 30, 1996 compared to June 30, 1995			Years Ended December 31, 1995 compared to 1994			Years Ended December 31, 1994 compared to 1993		
	Change Due To:			Change Due To:			Change Due To:		
	Volume	Rate	Increase (Decrease)	Volume	Rate	Increase (Decrease)	Volume	Rate	Increase (Decrease)
	(Dollars in thousands)								
<S> <C>									
Assets:									
Securities.......................	$ 3	$ 4	$ 7	$ (1)	$(14)	$(15)	$(17)	$(23)	$(40)
Loans:									
Commercial.......................	94	30	124	97	44	141	373	(5)	368
Real estate......................	109	46	155	230	54	284	138	10	148
Installment......................	143	(10)	133	225	13	238	148	(5)	143
Total Loans....................	346	66	412	552	111	663	659	-	659
Federal funds sold................	18	(2)	(16)	22	19	41	2	5	7
Total earning assets............	367	68	435	573	116	689	644	(18)	626
Liabilities and Stockholder's Equity:									
Interest bearing deposits:									
Interest Checking.............	7	1	8	10	(1)	9	16	(1)	15
Regular savings................	(1)	2	1	(48)	(6)	(54)	41	(22)	19
Money market savings...........	12	7	19	11	(4)	7	(4)	9	5
Certificates of deposit:									
$100,000 and over...........	39	(3)	36	80	40	120	7	(4)	3
Under $100,000..............	105	8	113	268	51	319	108	(10)	98
Total interest bearing deposits	162	15	177	321	80	401	168	(28)	140
Short-term borrowings.............	(3)	2	(1)	(4)	1	(3)	4	-	4
Mortgage payable..................	(1)	(1)	(2)	(1)	-	(1)	(1)	(14)	(15)
Capital lease payable.............	-	1	1	6	-	6	3	-	3
Total interest-bearing liabilities.	158	17	175	322	81	403	174	(42)	132
Change in net interest income......	$209	$ 51	$260	$251	$ 35	$286	$470	$ 24	$494

</TABLE>

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Interest Sensitivity

An important element of both earnings performance and liquidity is management of the interest sensitivity gap. The interest sensitivity gap is the difference between interest-sensitive assets and interest-sensitive liabilities in a specific time interval. The gap can be managed by repricing assets or liabilities, by selling investments available-for-sale, by replacing an asset or liability at maturity, or by adjusting the interest rate during the life of an asset or liability. Matching the amounts of assets and liabilities repricing in the same time interval helps to hedge the risk and minimize the impact on net interest income in periods of rising or falling interest rates.

The Corporation evaluates interest sensitivity risk and then formulates guidelines regarding asset generation and pricing, funding sources and pricing, and off-balance sheet commitments in order to decrease sensitivity risk. These guidelines are based upon management's outlook regarding future interest rate movements, the state of the regional and national economy, and other financial and business risk factors.

The following table illustrates the interest sensitivity gap position of the Corporation as of June 30, 1996. This table presents a position that existed at one particular day, that changes continually, and that is not necessarily indicative of the Corporation's position at any other time. The Corporation has significantly more interest earning assets adjustable within 90 days than interest bearing liabilities adjustable within the same period. As such, an increase in interest rates would increase the Corporation's net interest margin, and conversely, a decrease in interest rates would decrease the net interest margin.

Interest Sensitivity Analysis

<TABLE>
<CAPTION>

	June 30, 1996 (1) Maturing Or Repricing In:				
	Within 90 Days	90-365 Days	1-5 Years	Over 5 Years	Total
			(Dollars in thousands)		
<S> <C>					
Earning Assets:					
Loans(2)	$10,363	$ 5,507	$16,738	$ 385	$32,993
Investment securities, at amortized cost	___	100	298	267	665
Securities available for sale, at fair value	___	___	589	134	723
Federal funds sold	3,148				3,148
Total Earning Assets	$13,511	$ 5,607	$17,625	$ 786	$37,529
Interest-Bearing Liabilities:					
Interest checking(3)	$ ___	$ ___	$ 2,081	$ ___	$ 2,081
Regular savings(3)	___	___	5,057	___	5,057
Money market savings	3,141	___	___	___	3,141
Certificates of deposit:					
$100,000 and over	1,219	1,966	1,164	___	4,349
Under $100,000	1,429	8,717	6,825		16,971
Total Interest-Bearing Liabilities	$ 5,789	$10,683	$15,127	$ -	$31,599
Period gap	$ 7,722	$(5,076)	$ 2,498	$ 786	$ 5,930
Cumulative gap	$ 7,722	$ 2,646	$ 5,144	$5,930	
Ratio of cumulative gap to total earning assets	20.58%	7.05%	13.71%	15.80%	

</TABLE>

----

(1) The repricing dates may differ from maturity dates for certain assets due to prepayment assumptions.
(2) Excludes nonaccrual loans.
(3) The Corporation has determined that interest checking and savings accounts are not sensitive to changes in related market rates and therefore it has placed them in the 1 to 5 years column.

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Securities

Investment Securities. The carrying value of investment securities amounted to $665 thousand at June 30, 1996, compared to $926 thousand at December 31, 1995. The comparison of amortized cost to fair value is shown in Note 2 of the notes to the consolidated financial statements. Note 2 also provides an analysis of gross unrealized gains and losses of investment securities. Investment securities consist of the following:

Portfolio of Investment Securities

	June 30,		December 31,		
	1996	1995	1995	1994	1993
	(Dollars in thousands)				
Book Value:					
U.S. Treasury and other U.S. government agencies and corporations	$ 298	$ 650	$ 650	$ 649	$ 0
States of the U.S. and political subdivisions	251	150	150	150	0
Other securities	116	134	126	147	0
Total Securities	$ 665	$ 934	$ 926	$ 946	$ 0

Securities Available for Sale. Securities available for sale are used as part of the Corporation's interest rate risk management strategy and may be sold in response to changes in interest rates, changes in prepayment risk, liquidity needs, the need to increase regulatory capital and other factors. The fair value of securities available for sale totaled $1.026 million at June 30, 1996, compared to $773 thousand at December 31, 1995. The comparison of fair market value to amortized cost is shown in Note 2 of the notes to the consolidated financial statements. Note 2 also provides an analysis of gross unrealized gains and losses of securities available for sale.

Securities Available for Sale

	June 30,		December 31,		
	1996	1995	1995	1994	1993
	(Dollars in thousands)				
Fair Value:					
U.S. Treasury and other U.S. government agencies and corporations	$ 589	$ 293	$ 454	$ 281	$ 926
States of the U.S. and political subdivisions	0	0	0	0	160
Other securities	437	279	319	263	472
Total Securities	$1,026	$ 572	$ 773	$ 544	$ 1,558

The Corporation does not hold any derivative instruments.

The following table sets forth the maturity distribution and weighted average yields of the investment portfolio at June 30, 1996. The weighted average yields are calculated on the basis of book value of the investment portfolio and on the interest income of investments adjusted for amortization of premium and accretion of discount.

Maturities of Investments

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	June 30, 1996					
	Held to Maturity			Available for Sale		
	Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)					
U.S. Treasury and other U.S. government agencies and corporations						
After one year to five years ...	$298	$293	5.71%	$596	$589	5.99%
Total.........................	298	293	5.71	596	589	5.99
Other Securities						
After one year to five years....	251	256	6.64	0	0	0.00
Other...........................	116	117	7.33	137	134	7.54
Total.........................	367	373	6.98	137	134	7.54
Total securities(1)(2)...........	$665	$666	6.76%	$733	$723	6.22%

----
(1) Excludes equity securities without readily determinable fair values, at historical costs, as follows: Federal Reserve Bank - $139,550; Virginia Bankers Bank - $50,000; FHLB stock - $108,300 and CDC Stock - $5,000
(2) The equity securities have no stated maturity date.

Loan Portfolio

The Corporation's loan portfolio is comprised of commercial loans, construction loans, real estate loans, and consumer installment loans. The primary market in which the Corporation makes loans is the Northern Shenandoah Valley, which includes Frederick, Shenandoah, Warren and Clarke Counties, and the City of Winchester.

Net loans consist of total loans minus the allowance for loan losses, and where applicable, unearned discounts. Net loans were $31.596 million at June 30, 1996, an 18.76% increase over June 30, 1995. Net loans were $28.774 million at December 31, 1995, 27.22% greater than net loans of $22.618 million at December 31, 1994. The average loans as a percentage of average earning assets was 90.79%, 90.41%, and 85.94% for the years ended December 31, 1995, 1994, and 1993, respectively, and was 91.48% as of June 30, 1996. The Bank does not and has not had any loans outstanding to foreign countries or for highly leveraged transactions.

In the normal course of business, the Corporation makes various commitments and incurs certain contingent liabilities which are disclosed but not reflected in its financial statements. These commitments and contingent liabilities include commitments to extend credit and financial standby letters of credit. At June 30, 1996, commitments for financial standby letters of credit totaled $78 thousand and commitments to extend credit were $4.685 million. At December 31, 1995, commitments for financial standby letters of credit totaled $77 thousand and commitments to extend credit totaled $3.699 million. At December 31, 1994, commitments for financial standby letters of credit totaled $55 thousand and commitments to extend credit totaled $2.969 million.

Interest income on installment, commercial, and real estate mortgage loans is computed on the principal balance outstanding. Most variable rate loans carry an interest rate tied to New York Prime, as published in the Wall Street Journal.

The following table summarizes the composition of the loan portfolio at the dates indicated:

Loan Portfolio

	June 30,	December 31,

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	1996	1995	1994	1993	1992	1991
	(Dollars in thousands)					
Commercial........................	$15,311	$13,315	$11,976	$ 7,566	$ 5,798	$ 7,132
Real estate construction..........	4,015	3,638	2,488	1,788	945	1,289
Real estate mortgage.............	5,747	6,133	4,924	5,807	2,508	2,875
Installment loans.................	6,987	6,081	3,529	3,213	1,773	711
Total Loans.....................	32,060	29,167	22,917	18,374	11,024	12,007
Less:						
Allowance for loan losses.......	(464)	(393)	(299)	(225)	(196)	(462)
Net loans.....................	$31,596	$28,774	$22,618	$18,149	$10,828	$11,545

</TABLE>

The following table sets forth the composition of the Corporation's loan portfolio (by percentage) for the five years ended December 31, 1995, and the six months ended June 30, 1996:

Loan Portfolio by Percentage

<TABLE>
<CAPTION>

	June 30, 1996	December 31, 1995	1994	1993	1992	1991
	(Dollars in thousands)					
Commercial........................	47.76%	45.65%	52.26%	41.18%	52.59%	59.40%
Real estate construction..........	12.52	12.47	10.86	9.73	8.57	10.74
Real estate mortgage.............	17.93	21.03	21.48	31.60	22.76	23.94
Installment.......................	21.79	20.85	15.40	17.49	16.08	5.92
Total Loans..................	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

</TABLE>

Real estate secured loans accounted for 30.45% of the loans outstanding at June 30, 1996. These loans are primarily secured by residential property. Commercial loans accounted for 47.76% of loans outstanding at June 30, 1996. Commercial loans are made for business purposes and may be secured by commercial real estate, demand deposits, stocks, and business equipment. Consumer installment loans accounted for 21.79% of loans outstanding at June 30, 1996. Consumer installment loans are normally loans to individuals for household, automobiles, home improvements, family, and other personal expenditures. Nonperforming loans as of June 30, 1996, totaled $64 thousand, or 0.20% of the total loan portfolio.

The following table presents the maturities or repricing periods of selected loans outstanding at June 30, 1996:

Maturity Schedule of Loans

<TABLE>
<CAPTION>

	1 year or less		1-5 years		After 5 years		Total(1)	
	(Dollars in thousands)							
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
June 30, 1996	$9,627	$6,243	$16,738	-0-	$385	-0-	$26,750	$6,243

</TABLE>

----

(1) Excludes nonaccrual loans.

Asset Quality

The Corporation attempts to maintain the allowance for loan losses at a sufficient level to provide for potential losses in the loan portfolio. Loan losses are charged directly to the allowance when they occur, while recoveries are credited to the allowance. The provision for loan losses is determined periodically by senior management and lending officers based upon consideration of several factors, including changes in the character and size of the loan

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portfolio and related loan loss experience, a review and examination of overall loan quality which includes the assessment of problem loans, and an analysis of anticipated economic conditions in the market area. In addition, input from bank regulatory agencies that regularly review the loan portfolio as part of their examination process and advice from the Corporation's independent accountants are considered in reviewing and assessing the adequacy of the allowance for loan losses.

An analysis of the allowance for loan losses, including charge-off activity, is presented below for the periods indicated:

<TABLE>
<CAPTION>

ALLOWANCE FOR LOAN LOSSES

<S> <C>	SIX MONTHS ENDED JUNE 30, 1996	1995	DECEMBER 31, 1995	1994	1993	1992	1991
	(Dollars in thousands)						
Average total loans................	$30,897	$24,506	$26,364	$20,997	$14,516	$10,948	$12,454
Balance, beginning of period........	$ 393	$ 299	$ 299	$ 225	$ 196	$ 462	$ 110
Less charge offs:							
Commercial........................	_	_	5	68	___	293	2,106
Real Estate.......................	_	_	__	___	___	___	___
Installment.......................	6	7	26	22	4	15	
Total Charge offs..............	6	7	31	90	4	308	2,106
Plus recoveries:							
Commercial........................	1	2	7	12	5	130	___
Real Estate.......................	__	_	_	__	___	___	___
Installment.......................	3	_	5	1	16	_	_
Total recoveries...............	4	2	12	13	21	130	0
Net (charge offs) recoveries........	(2)	(5)	(19)	(77)	17	(178)	(2,106)
Provision for loan losses..........	73	16	113	151	12	(88)	2,458
Balance, end of period.............	$ 464	$ 310	$ 393	$ 299	$ 225	$ 196	$ 462
Allowance for loan losses to period end total loans............	1.45%	1.15%	1.35%	1.31%	1.22%	1.78%	3.85%
Allowance for loan losses to nonaccrual loans..................	725.00%	107.27%	873.33%	111.11%	1,184.21%	0.00%	130.51%
Net charge-offs (recoveries) to average loans	.01%	.04%	.07%	.37%	(.12)%	1.63%	16.91%

</TABLE>

The allowance for loan losses is maintained at a level which in management's judgment is adequate to absorb credit losses inherent in the loan portfolio, although no assurance can be given in this regard due to competitive and economic uncertainties. Management believes that the June 30, 1996 allowance for loan losses was adequate at 1.45%. Management based such estimate on the quality of assets held and the strong local economy because of: (i) high quality and (ii) a strong local economy.

A breakdown of the allowance for loan losses is provided in the following table. However, management of the Corporation does not believe that the allowance for loan losses can be fragmented by category with any precision that would be useful to investors. The breakdown of the allowance for loan losses is based primarily upon those factors discussed above in computing the allowance for loan losses as a whole. Because all of these factors are subject to change, the breakdown is not necessarily indicative of the category of future loan losses.

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES IN DOLLARS

<TABLE>
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	JUNE 30, 1996	1995	DECEMBER 31, 1995	1994	1993	1992	1991

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(DOLLARS IN THOUSANDS)

Commercial	$ 395	$264	$334	$278	$209	$182	$409
Real estate - construction	23	15	20	1	1	1	13
Real estate - mortgage	9	6	8	4	3	2	29
Installment	37	25	31	16	12	11	11
Total allowance for loan losses	$464	$310	$393	$299	$225	$196	$462

NONPERFORMING ASSETS

The following table details information concerning nonaccrual and past due loans, as well as foreclosed assets, for the dates indicated:

NONPERFORMING ASSETS

	JUNE 30,		DECEMBER 31,				
	1996	1995	1995	1994	1993	1992	1991
	(DOLLARS IN THOUSANDS)						
Nonaccrual loans	$ 64	$ 289	$ 45	$ 269	$ 19	$ 0	$ 354
Other real estate owned(1)	236	-	236	-	-	-	-
Total Nonperforming assets	$ 300	$ 289	$ 281	$ 269	$ 19	$ 0	$ 354
Loans past due 90 or more days accruing interest	$ 219	$ 270	$ 215	$ 587	$ 16	$ 247	$ 349
Allowance for loan losses to nonaccrual loans	725.00%	107.27%	873.33%	111.11%	1,184.21%	0.00%	130.51%
Nonperforming assets to period end loans and other real estate owned	0.93	1.07	0.96	1.18	0.10	0.00	2.94

----

(1) The Corporation signed a contract to sell its largest piece of other real estate owned to an unrelated purchaser for cash, which is anticipated to close in October 1996. If the transaction is consummated, the Corporation will reduce its portfolio of other real estate owned by more than 90%.

Loans are placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent 90 days or more. If interest had been accrued on these loans for the six months of 1996, the interest income would have been $3 thousand.

Noninterest Income

For the six month period ending June 30, 1996, noninterest income was $194 thousand, an increase of $93 thousand, or 92.08% compared to noninterest income of $101 thousand at June 30, 1995. For the twelve month period ended December 31, 1995, noninterest income increased to $281 thousand from $242 thousand in 1994, or 16.12%. Such increase is a direct result of the Corporation's increased volume of non-interest bearing deposits and the related fees and service charges.

Noninterest Expense

Noninterest expense increased from $685 thousand for the six month period ended June 30, 1995, to $851 thousand for the same period ended June 30,

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1996. The category with the largest increase, salaries and benefits, increased $84 thousand or 25.85%, as a result of salary adjustments due to changes in positions. Noninterest expense for 1995 was $1.435 million, up 22.13% over the comparable period of 1994. Noninterest expense for 1994 was $1.175 million, up 29.26%, over the comparable period for 1993.

Income Taxes

There was no income tax expense in 1995, 1994, and 1993 due to utilization of a net operating loss carryforward. Under the Internal Revenue Code, the Corporation has net operating loss carryforwards available totaling $3.226 million at December 31, 1995. The carryforwards expire December 31, 2006. The full realization of the tax benefits associated with the carryforwards depends predominantly upon the recognition of ordinary income during the carryforwards period. Effective January 1, 1993, the Corporation adopted Statement of Financial

Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. See Note 8 to the Corporation's financial statements for related disclosures.

Deposits

The Corporation primarily uses deposits to fund its loans and investment portfolio. For the six month period ended June 30, 1996, total average deposits were $34.206 million, compared to $26.616 million for the comparable period of 1995, a 28.52% increase. For the year ended December 31, 1995, total average deposits were $28.791 million, up 25.86% from $22.876 million for 1994. Average deposits for 1993 were $16.534 million. For the first six months of 1996, average noninterest bearing demand deposits were $5.203 million, up 28.34% from $4.054 million for the comparable 1995 period. For the year ended December 31, 1995, average noninterest bearing demand deposits were $4.034 million, up 16.76% from $3.455 million during 1994 and up 80.98% from $1.909 million during 1993. The largest category of interest bearing deposits is certificates of deposit under $100,000. For the six month period ended June 30, 1996, this category increased $3.954 million, or 35.28%, to $15.162 million from $11.208 million during the comparable period of 1995. Average certificates of deposit under $100,000 were $15,162 million at June 30, 1996, $12.488 million, $7.870 million and $5.846 million for the years 1995, 1994 and 1993, respectively.

The Corporation offers individuals and small-to-medium sized businesses a variety of deposit accounts. These accounts, including checking, savings, money market, and certificates of deposit, are obtained primarily from the community that the Corporation services. Accordingly, the Corporation enjoys a stable core deposit base.

The following table details the average amount of, and the average rate paid on, the following primary deposit categories, for the periods indicated:

Average Deposits and Average Rates Paid

<TABLE>
<CAPTION>

	Six months ended June 30, 1996		Years ended December 31, 1995		1994		1993	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)							
<S> <C>								
Interest-bearing deposits:								
Checking	$ 2,154	2.79%	$ 1,756	2.73%	$ 1,375	2.84%	$ 814	2.95%
Regular savings	4,823	3.32	5,009	3.15	6,543	3.24	4,721	4.09
Money market savings	3,185	3.58	2,661	3.49	2,356	3.65	2,471	3.28
Certificates of deposit:								
$100,000 and over	3,679	5.71	2,843	5.84	1,277	3.60	773	5.56
Under $100,000	15,162	5.88	12,488	5.91	7,870	5.32	5,846	5.49
Total interest-bearing deposits..	29,003	4.95%	24,757	4.86%	19,421	4.13%	14,625	4.53%
Noninterest-bearing	5,203		4,034		3,455		1,909	
Total deposits	$34,206		$28,791		$22,876		$16,534	

</TABLE>

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The following is a summary of the maturity distribution of certificates of deposit in amounts of $100,000 or more as of June 30, 1996:

Maturities of CDs of $100,000 or More

	June 30, 1996	
	Amount	Percent
	(Dollars in thousands)	
Three months or less..................	$1,219	28.03%
Over three months to one year..........	1,966	45.21
Over one year to five years...........	1,164	26.76
Total...............................	$4,349	100.00%

For the six month period ended June 30, 1996, average certificates of deposit over $100,000 totaled $3.679 million. Average certificates of deposit in amounts of $100,000 or more were $2.843 million, $1.277 million, and $773 thousand at December 31, 1995, 1994 and 1993, respectively. As of June 30, 1996, and December 31, 1995, 1994, and 1993, average certificates over $100,000 represented 19.53%, 18.54%, 13.96%, and 11.68%, respectively, of the total certificates of deposit held on the respective dates. The Corporation competes with the major regional financial institutions for money market accounts and certificates of deposit less than $100,000. The Corporation has a relatively high level of rate sensitive assets and uses a system to adjust loan pricing to reflect its cost of funds, loan and funding maturities and loan-to-deposit ratio.

Short-Term Borrowings

The Corporation occasionally finds it necessary to purchase federal funds on a short-term basis due to fluctuations in loan and deposit levels. The Corporation had no short-term borrowings with an average balance outstanding of more than 30% of stockholders' equity for the years ended December 31, 1995 and 1994.

Liquidity

Liquidity represents an institution's ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest-bearing deposits with banks, federal funds sold, investments, and loans maturing within one year. As a result of the Corporation's management of liquid assets and the ability to generate liquidity through

liability funding, management believes that the Corporation maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs.

Summary of Liquid Assets

<TABLE>
<CAPTION>

	June 30,	December 31,		
	1996	1995	1994	1993
	(Dollars in thousands)			
<S> <C>				
Cash and due from banks	$ 3,110	$ 2,283	$ 1,789	$ 1,119
Federal funds sold	3,148	1,574	277	240
Investment securities(1)	-	448	289	902
Available-for-sale securities	1,026	774	544	1,558
Total liquid assets	$ 7,284	$ 5,079	$ 2,899	$ 3,819

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	======	======	======	======
Deposits and other liabilities	$38,648	$33,392	$25,438	$20,445
Ratio of liquid assets to deposits and other liabilities	18.85%	15.21%	11.40%	18.68%

</TABLE>

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(1) Only investment securities with a maturity of one year or less are considered liquid assets for this table.

As of June 30, 1996, the Corporation's liquidity position was tight, although it had improved somewhat from its position at December 31, 1995, as management continued its strategy to maximize earning assets in order to restore previously impaired capital. Deposit growth continued to be invested almost exclusively in loans and a minimal level of temporary investments. As of June 30, 1996, the Corporation had approximately $1.026 million in available-for-sale securities at its disposal. Furthermore, the Corporation maintains a $600 thousand federal funds line with a correspondent bank, and can borrow up to 50% of its capital on an unsecured basis from the Community Bankers' Bank. In addition, should additional liquidity be required, management has the ability to sell loans to other institutions to obtain additional capital as needed.

Liquidity is monitored by the institution on several levels. The officers of the Corporation monitor liquidity on a monthly basis. In addition, the loan committee, which consists of several directors and officers, monitors the liquidity position on a biweekly basis. The results of both meetings are reviewed by the full board at its monthly meeting. The loan-to-deposit ratio is considered by management to be the key liquidity ratio. As of June 30, 1996, such ratio was 84.67%. At June 30, 1996, the Corporation had long term debt of $590 thousand and had no material commitments for capital expenditures.

Return on Equity and Assets

The following table summarizes ratios considered to be significant indicators of the Corporation's profitability and financial condition during the periods indicated:

Return on Equity and Assets

<TABLE>
<CAPTION>

<S> <C>	Six Months ended June 30, 1996(1)	Years ended December 31, 1995	1994	1993
Return on average assets	1.61%	1.31%	1.23%	0.42%
Return on average equity	21.55	16.96	15.28	4.51
Average equity to average asset ratio	7.48	7.73	8.04	9.24

</TABLE>

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(1) Percentages for the six months ended June 30, 1996, have been annualized.

Impact of Inflation and Changing Prices and Seasonality

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services, since such prices are affected by inflation.

The Corporation's loans and deposits are not typically seasonal or cyclical.

Accounting Rule Changes

FASB No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, establishes standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. This Statement requires that

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long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Statement is effective for fiscal years beginning after December 15, 1995. The Statement is not expected to have a material impact on the Corporation.

FASB No. 122, Accounting for Mortgage Servicing Rights, amends FASB No. 65, Accounting for Certain Mortgage Banking Activities, to require that a mortgage banking enterprise recognize as separate assets rights to service mortgage loans for others, however those servicing rights are acquired. A mortgage banking enterprise that acquires mortgage servicing rights through either the purchase or origination of mortgage loans and sells or securitizes those loans with servicing rights retained should allocate the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values if it is practicable to estimate those fair values. If it is not practicable to estimate the fair values of the mortgage servicing

rights and the mortgage loans (without the mortgage servicing rights), the entire cost of purchasing or originating the loans should be allocated to the mortgage loans (without the mortgage servicing rights) and no cost should be allocated to the mortgage servicing rights. The Statement is effective for transactions in fiscal years beginning after December 15, 1995. The Statement is not expected to have a material impact on the Corporation.

FASB No. 123, Accounting for Stock-Based Compensation, establishes financial accounting and reporting standards for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer's stock. Examples are stock purchase plans, stock options, restricted stock, and stock appreciation rights. This Statement also applies to transactions in which an entity issues its equity instruments to acquire goods or services from nonemployees. Those transactions must be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

This Statement defines a fair value based method of accounting for an employee stock option or similar equity instrument and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees. The fair value based method is preferable to the Opinion 25 method for purposes of justifying a change in accounting principle under APB Opinion 20, Accounting Changes. Entities electing to remain with the accounting in Opinion 25 must make pro forma disclosures of net income and, if presented, earnings per share, as if the fair value based method of accounting defined in this Statement had been applied.

The Statement is effective for fiscal years beginning after December 15, 1995. The disclosures must include the pro forma effects of other awards granted in fiscal years beginning after December 31, 1994. The Statement is not expected to have a material impact on the Corporation.

BUSINESS

General

The Corporation is a bank holding corporation incorporated under the laws of the Commonwealth of Virginia in June 1989. The Corporation owns all of the outstanding stock of its subsidiary, The Marathon Bank ("Bank"), which was incorporated in August 1987 and acquired by the Corporation in October 1990, in accordance with the plan of exchange approved by the shareholders of the Bank in June 1990. The Corporation is headquartered in Frederick County, Virginia. The Corporation operates three offices. The original branch is located in Frederick County. The second branch, which opened in August of 1993, is located in the Town of Front Royal, Virginia. The third branch, which opened in February of 1995, is located in the City of Winchester, Virginia. Collectively, the three branches service the Northern Shenandoah Valley, which is comprised of Frederick County, Shenandoah County, Warren County, Clarke County, the City of Winchester,

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and the Town of Front Royal.

The Corporation is engaged in the business of offering banking services to the general public. It offers checking accounts, savings and time deposits, and commercial, real estate, personal, home improvement, automobile and other installment and term loans. It also offers travelers checks, safe deposit, collection, notary public, credit cards and other customary bank services. The Corporation is also becoming increasingly involved in the origination and sale of loans in the secondary mortgage market.

The Corporation is the only independent community bank headquartered in the City of Winchester or Frederick County, Virginia. The Corporation's primary market is the Northern Shenandoah Valley, which includes Frederick County, where, based on total financial institution deposits at June 30, 1995, it was the fourth largest financial institution with approximately 11% of the market, Warren County, including the Town of Front Royal, where, based on total financial institution deposits at June 30, 1995, it was the ninth largest financial institution with approximately 4% of the market. The newest branch is located in the City of Winchester, the largest market in the four county area of Frederick, Warren, Shenandoah and Clarke Counties. Winchester and Front Royal are located at or near the intersections of I-81 and I-66 on the western fringe of the greater Washington-Baltimore Metropolitan Statistical Area, the fourth largest market in the United States.

At June 30, 1996, the Corporation had $41.611 million in assets, $31.596 million in net loans, $37.866 million in deposits, and $2.963 million in stockholders' equity. It also had, at that date, a tax loss carryforward of $3.226 million. During the year ended December 31, 1995, the Corporation's net income grew 32.39% to $421 thousand from $318 thousand in 1994. In the six months ended June 30, 1996, the Corporation's net income increased 71.75% to $304 thousand from $177 thousand for the comparable period in 1995, while total assets increased 28.96% to $41.611 million at June 30, 1996 over the June 30, 1995 level. The annualized return on average assets and equity for the six months ended June 30, 1996 were 1.61% and 21.55%, respectively. Improvements in the Bank's earnings and size have been consistent since the employment by the Corporation of the current chief executive officer in 1992.

Credit Policies

The Corporation employs extensive written policies and procedures to enhance management of credit risk. The loan portfolio is managed under a specifically defined credit process. This process includes formulation of portfolio management strategy, guidelines for underwriting standards and risk assessment, procedures for on-going identification and management of credit deterioration, and regular portfolio reviews to estimate loss exposure and to ascertain compliance with the Corporation's policies. The largest unsecured individual lending authority currently granted by the Corporation is $100,000. Loan applications in excess of $50,000 are reviewed by the Loan Committee on a weekly basis. The Loan Committee consists of the Chief Executive Officer and six additional directors.

A major element of credit risk management is the diversification of risk. The Corporation's objective is to maintain a diverse loan portfolio to minimize the impact of any single event or set of circumstances. Concentration parameters are based upon individual risk factors, policy constraints, economic conditions, collateral, and products. The Corporation, as a matter of policy, generally does not extend credit to any single borrower or group of related borrowers in excess of $400,000. The Corporation generally does not make loans outside its market area, except for loan participations, unless the borrower has an established relationship with the Corporation and lives and conducts his principal business operations within the Corporation's market area. Consequently, the Corporation and its borrowers are directly affected by the economic conditions prevailing in its market area.

Lending Activities

The Corporation's primary market focus is on making loans to small businesses and consumers in its local market area. Business and consumer installment loans secured by real estate represent the largest segment of the Corporation's loan portfolio. In addition, the Corporation also provides a wide range of business and consumer installment loans that are not secured by real property. The Corporation's lending activities are principally directed to its defined market area in the Northern Shenandoah Valley.

Commercial Business Lending. The Corporation's commercial loans are made primarily to local service and retail oriented businesses for a variety of purposes, including revolving lines of credit, working capital loans, equipment financing loans, letters of credit, construction loans, and "mini-permanent"

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financing of commercial real estate. Pricing on commercial loans is generally tied to the depository relationship and/or the perceived risk involved in the credit.

The Corporation normally looks to the borrower's cash flow and/or earnings as the principal source of repayment for commercial business loans, and most of these loans are both secured and personally guaranteed by the principals of such businesses.

Real Estate Construction Lending. At June 30, 1996, real estate construction loans comprised $4.015 million, or 12.52%, of the Corporation's total loan portfolio.

Mortgage Lending. The Corporation's real estate loan portfolio, a significant portion of which consists of business related loans secured by the owner's residence or commercial property, was approximately 30.45% of total loans at June 30, 1996. The mortgage portfolio consists primarily of loans for individual purposes with 15- to 25-year amortization schedules that mature with a balloon payment on the third or fifth anniversary of the loan.

Consumer Installment Lending. The Corporation currently offers most types of consumer time and installment loans, including automobile loans and home equity lines of credit. The Corporation also extends other consumer credit through its overdraft protection program. At June 30, 1996, the Corporation's consumer installment loans, including home equity lines, were 21.79% of the total loan portfolio. The performance of the consumer installment loan portfolio is directly tied to and dependent upon the general economic conditions in the Corporation's market area.

Credit Policies and Administration. The Corporation has adopted a comprehensive lending policy which includes stringent underwriting standards for all types of loans and pricing guidelines. In an effort to manage risk, all credit decisions in excess of the officer's lending authority must be approved prior to funding by the Loan Committee. Management believes that it employs experienced lending officers, secures appropriate collateral, and carefully monitors the financial conditions of its borrowers and the concentration of such loans in the Corporation's portfolio.

Market Area

The Corporation has three branches located in the Northern Shenandoah Valley. The Shenandoah Valley is located on the I-81 corridor in Northwestern Virginia, and borders on the Washington-Baltimore Metropolitan Statistical Area, the fourth largest market in the United States. The Northern Shenandoah Valley is the home of major manufacturing facilities of 17 Fortune 500 companies. In addition, Warren County is becoming a significant center, in the Mid-Atlantic region, for manufacturing and distribution due to its proximity to the Virginia Inland Port. Pen-Tab Inc. opened a manufacturing and distribution center in the first quarter of 1996 which employs over 270 persons. Toray, Inc. recently broke ground on a $120 million full service manufacturing plant which will employ 120 persons in 1997 and over 500 persons by the year 2000. Major employers in the four county area include Valley Health Systems, Inc., Crown Cork and Seal, Automotive Industries Inc., National Fruit Products, Inc., Rubbermaid Commercial Products, General Electric, AT&T Communications, duPont, Inc. and O'Sullivan Corporation. The Corporation's headquarters and a branch office are located in Frederick County. The population of the City of Winchester and Frederick County is approximately 75,000. The local economy is driven by the manufacturing and service industries, with over 30% of the area's workforce engaged in manufacturing. The Corporation's third office is located in Front Royal, Virginia in Warren County. The combined population of Front Royal and Warren County is approximately 40,000. The principal employers are in the manufacturing service industries as well as state and local government. The Corporation also services Shenandoah and Clarke Counties. The approximate population of such areas are 33,000 and 12,000, respectively.

Competition

The banking business in the Northern Shenandoah Valley (the counties of Frederick, Clarke, Shenandoah, and Warren, Virginia and the City of Winchester), the area served by the Corporation is highly competitive with respect to both loans and deposits. In the Corporation's primary service area, there are approximately eleven commercial banks and savings and loans (including six large, Virginia-wide and national banks with multiple offices); offering services ranging from deposits and real estate loans to full service banking. The Corporation is the newest and smallest commercial bank in its service area, in addition, there can be no assurance that other financial institutions, with substantially greater resources than the Corporation, will not establish operations in the service area.

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Properties

The Corporation's office is located at 4095 Valley Pike, Winchester, Virginia, in property owned by the Corporation.

In July 1996, the Bank's branch located in the Town of Front Royal moved into a newly constructed building located in the Post Office Plaza at 300 Warren Avenue. The Corporation leased the property from a related party under a 20 year lease with no renewal options. See "Management - Indebtedness and Other Transactions."

On February 13, 1995, the Corporation opened its Winchester Branch at 1041 Berryville Avenue in the City of Winchester, Virginia. The Corporation has a five year lease, with two five year options.

Employees

At June 30, 1996, the Corporation had the equivalent of 29 full-time employees. None of its employees is represented by any collective bargaining unit. The Corporation considers relations with its employees to be good.

Legal Proceedings

In the course of its operations, the Corporation is party to various legal proceedings. The Corporation does not believe that the outcome of these lawsuits, individually or in the aggregate, will have a material adverse effect on the Bank's business, financial position, or results of operations.

Supervision and Regulation

The Bank is subject to state and federal banking laws and regulations which impose specific requirements or restrictions and provide for general regulatory oversight with respect to virtually all aspects of its operations. The following is a brief summary of certain statutes and regulations affecting the Bank. This summary is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below, and it is not intended to be an exhaustive description of all laws applicable to the business of the Bank. Any change in applicable laws or regulations may have a material effect on the business and prospects of the Corporation.

State Chartered Banks. The Bank is a state-chartered bank, organized under Virginia law. It is also a member of the Federal Reserve System and, therefore, is supervised and examined by the Federal Reserve, its primary federal regulator. The Federal Reserve and Bureau of Financial Institutions ("BFI") conduct regular examinations of the Bank, reviewing the adequacy of its allowance for loan losses, quality of loans and investments, propriety of management practices, compliance with laws and regulations and other aspects of its operations. In addition to these regular examinations, the Bank must furnish the Federal Reserve with quarterly reports containing detailed financial statements and schedules. The Federal Deposit Insurance Corporation ("FDIC"), which provides deposit insurance, also has authority to examine and regulate the Bank.

Federal and state banking laws and regulations govern all areas of the operations of the Bank, including maintenance of cash reserves, loans, mortgages, maintenance of minimum capital, payment of dividends, and establishment of branch offices. Federal and state bank regulatory agencies also have the general authority to eliminate dividends paid by insured banks if such payment is deemed to constitute an unsafe or unsound practice. The Federal Reserve has authority to impose penalties, initiate civil administrative actions, and take other steps to prevent the Bank Subsidiaries from engaging in unsafe or unsound practices. In this regard, the Federal Reserve has adopted capital adequacy requirements applicable to its member banks. See "Supervision and Regulation of the Corporation - Capital Requirements" below.

Supervision and Regulation of the Corporation

General. As a bank holding company, the Corporation is subject to state and federal banking and bank holding company laws and regulations which impose specific requirements or restrictions and provide for general regulatory oversight with respect to virtually all aspects of its operations. The following is a brief summary of certain statutes and regulations affecting the Corporation. This summary is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below, and is not intended to be an exhaustive description of all laws applicable to the Corporation's operations. Any change in applicable laws or regulations may have

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a material effect on the business and prospects of the Corporation.

Bank Holding Companies. As a bank holding company registered under the Bank Holding Company Act ("BHC Act"), the Corporation is subject to regulation by the Federal Reserve. The Federal Reserve has jurisdiction under the BHC Act to approve any bank or nonbank acquisition, merger or consolidation proposed by a bank holding company. The BHC Act generally limits the activities of a bank holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity which is so closely related to banking or to managing or controlling banks as to be a proper incident thereto.

The BHC Act formerly prohibited the Federal Reserve from approving an application from a bank holding company to acquire shares of a bank located outside the state in which the operations of the holding company's banking subsidiaries were principally conducted, unless such an acquisition was specifically authorized by statute of the state in which the bank whose shares were to be acquired was located. However, under recently enacted federal legislation, the restriction on interstate acquisitions was abolished effective September 29, 1995, and bank holding companies from any state may now acquire banks and bank holding companies located in any other state. Banks also will be able to branch across state lines effective June 1, 1997, provided certain conditions are met, including

that applicable state law must expressly permit such interstate branching. Under Virginia law effective July 1, 1995, Virginia banks can branch across state lines in those states with which Virginia has reciprocal agreements.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance fund in the event the depository institution becomes in danger of default or in default. For example, under a policy of the Federal Reserve with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. In addition, the "cross-guarantee" provisions of federal law require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated by either the Savings Association Insurance Fund ("SAIF") or the Bank Insurance Fund ("BIF") as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. The FDIC may decline to enforce the cross-guarantee provisions if it determines that a waiver is in the best interest of the SAIF or the BIF or both. The FDIC's claim for damages is superior to claims of shareholders of the insured depository institution or its holding company but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institutions.

The Federal Deposit Insurance Act also provides that amounts received from the liquidation or other dissolution of any insured depository institution by any receiver must be distributed (after payment of secured claims) to pay the deposit liabilities of the institution prior to payment of any other general or unsecured senior liability, subordinated liability, general creditor or shareholder. This provision would give depositors a preference over general and subordinated creditors and shareholders in the event a receiver is appointed to distribute the assets of any of the Corporation's subsidiaries.

The Corporation is registered under the bank holding company laws of Virginia. Accordingly, the Corporation and the Bank are also subject to regulation and supervision by the BFI.

Capital Requirements. The Federal Reserve, the Office of the Comptroller of the Currency and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, those regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels because of its financial condition or actual or anticipated growth. Under the risk-based capital requirements of these federal bank regulatory agencies, the Bank is required to maintain a minimum ratio of total capital to risk-weighted assets of at least 8%. At least half of the total capital is required to be "Tier 1 capital," which consists principally of common and certain qualifying preferred shareholders' equity, less certain intangibles and other adjustments. The remainder, "Tier 2 capital," consists of a limited amount of subordinated and other qualifying debt (including certain hybrid capital instruments) and a limited amount of the general loan loss allowance. The Tier 1 and total capital to risk-weighted asset ratios of the Corporation as of June 30, 1996 were 9.20%

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and 10.45%, respectively, exceeding the minimums required.

In addition, each of the federal regulatory agencies has established a minimum leverage capital ratio (Tier 1 capital to average tangible assets). These guidelines provide for a minimum ratio of 3% for banks and bank holding companies that meet certain specified criteria, including that they have the highest regulatory examination rating and are not contemplating significant growth or expansion. All other institutions are expected to maintain a leverage ratio of at least 100 to 200 basis points above the minimum. The leverage ratio of the Bank as of June 30, 1996, was 7.88%. The guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

The following table sets forth in detail the various capital ratios of the Bank at the dates indicated:

Analysis of Capital

	June 30,		December 31,		
	1996	1995	1995	1994	1993
			(Dollars in thousands)		
Tier 1 Capital:					
Noncumulative preferred stock........	$	$ 1,003	$ -	$ 1,003	$ 1,003
Common stock.........................	1,306	1,079	1,306	1,079	1,069
Capital surplus......................	5,110	4,199	5,110	4,199	4,159
Retained earnings (deficit)..........	(3,443)	(3,852)	(3,747)	(4,029)	(4,297)
Less: Intangibles..................	-	-	-	(5)	(18)
Total Tier 1 capital..............	$ 2,973	$2,429	$ 2,669	$ 2,247	$ 1,916
Tier 2 Capital:					
Allowance for loan losses(1).........	404	310	$ 340	$ 280	$ 225
Total risk-based Capital...........	$ 3,377	$2,739	$3,009	$ 2,527	$ 2,141
Risk-weighted assets...................	$32,309	$26,419	$28,390	$22,380	$17,961
Capital Ratios:					
Tier 1 risk-based capital ratio......	9.20%	9.19%	9.40%	10.04%	10.67%
Total risk-based capital ratio.......	10.45	10.37	10.60	11.29	11.92
Tier 1 capital to average adjusted total assets.......................	7.88	8.10	8.32	8.69	9.99

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(1) Limited to 1.25% of risk weighted assets.

Deposit Insurance. The deposits of the Bank are insured up to $100,000 per insured depositor (as defined by law and regulation) by the FDIC through the BIF. The BIF are administered and managed by the FDIC. As insurer, the FDIC is authorized to conduct examinations of and to require reporting by SAIF and BIF-insured institutions. FIRREA also authorizes the FDIC to prohibit any SAIF and BIF-insured institution from engaging in any activity that the FDIC determines by regulation or order to pose a serious threat to the SAIF and BIF. The FDIC also has the authority to initiate enforcement actions against savings institutions, after first giving the OTS an opportunity to take such action.

From time to time, there are various proposals that involve increasing the deposit insurance premiums paid by banks and/or savings institutions. The Corporation is unable to predict whether or to what extent the rates that the Bank pays for federal deposit insurance may increase in future periods as a result of such proposals. Such increases would adversely affect its operations.

The FDIC may terminate the deposit insurance of any depository institution, including the Bank's, if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, order or any condition imposed in writing by the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If deposit insurance is terminated, the deposits at the institution at the time of termination, less subsequent withdrawals, shall continue to be insured for a period from six months to two years, as determined by the FDIC. Management is aware of no existing circumstances that could result

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in termination of the deposit insurance of the Bank.

On December 15, 1994, the Federal Reserve Board, the Office of Thrift Supervision, the Office of the Controller of the Currency ("OCC"), and the FDIC (collectively the "agencies") issued a final rule entitled, Risk- Based Capital Standards; Concentration of Credit Risk and Risks of Nontraditional Activities. The final rule amends the risk-based capital standards by explicitly identifying concentrations of credit risk and certain risks arising from nontraditional activities, as well as an institution's ability to manage these risks, as important factors in assessing an institution's overall capital adequacy. While no quantitative measure of such risk is included in the final rule, to the extent appropriate, the agencies will issue examination guidelines on new developments in nontraditional activities or concentrations of credit to ensure that adequate account is taken of the risks of these activities. Moreover, the agencies also believe that institutions identified through the examination process as having significant exposure to concentration of credit risk or as not adequately managing concentration risks should hold capital in excess of the regulatory minimums. Therefore, due to the subjective nature of this final rule, the Corporation is unable to determine what effect, if any, this rule may have on regulatory capital requirements.

On August 2, 1995, the OCC, the Federal Reserve Board, and the FDIC (collectively the "banking agencies") issued a final rule entitled, Risk-Based Capital Standards; Interest Rate Risk. The final rule implements minimum capital standards for interest rate risk exposures in a two-step process. The final rule implements the first step of that process by revising the capital standards of the banking agencies to explicitly include a bank's exposure to declines in the economic value of its capital due to changes in interest rates as a factor that the banking agencies will consider in evaluating a bank's capital adequacy. The banking agencies intend to implement this rule on a case-by-case basis during the examination process. The second step of the banking agencies' process will be to issue a proposed rule that would establish an explicit minimum capital charge for interest rate risk, based on the level of the bank's measured interest rate risk exposure. Due to the subjective nature of the first phase of this final rule, the Corporation is unable to determine what effect, if any, this rule may have on its regulatory capital requirements.

On November 16, 1995, the Federal Reserve Board issued guidelines entitled, Federal Reserve Guidelines for Rating Risk Management at State Member Banks and Bank Holding Companies (the "Guidelines"). The Guidelines specify that principles of sound management should apply to the entire spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk and that, for state member banks, a single numerical rating for risk management should be provided as part of the examination process. The Guidelines also specify that examination reports should make reference to the types and nature of corrective actions that need to be taken by institutions to address noted risk management and internal control deficiencies. Where appropriate, institutions should also be advised that the Federal Reserve Board will initiate supervisory actions if the failure to separate critical operational duties creates the potential for serious losses or if material deficiencies or situations that threaten the safe and sound conduct of their activities are not adequately addressed in a timely manner. Due to the subjective nature of the risk-management evaluation, the Corporation is not able to determine what effect, if any, this rule may have on the operation of the Corporation.

Community Reinvestment Act. The federal supervisory agencies share authority to implement regulations under the Community Reinvestment Act of 1979, as amended ("CRA"). The general purpose of the CRA is to encourage lenders, while operating safely and soundly, to meet the credit needs of their communities. The CRA specifically directs regulators, when examining a lender, to assess the lender's record of helping to meet the credit needs of its entire community, including low and moderate-income neighborhoods. For example, the regulators will evaluate and take into account a lender's record of meeting its community credit needs when evaluating a lender's application for creation of a new branch. The Bank has always had a "Satisfactory" rating with respect to their compliance with the CRA. The Corporation itself has not been examined or received a CRA rating.

As a result of a Presidential initiative, each of the federal banking agencies, including the FDIC, issued a notice of proposed rule making in October of 1994 to replace the current CRA assessment system with a new evaluation system that would rate institutions based on their actual performance (rather than efforts) in meeting community credit needs. The final rule retains, to a significant extent, the principles and structures underlying the

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1994 proposal and will be phased in over 1996 and 1997. The Corporation is currently studying the new CRA regulations and determining whether the regulations would require changes to the CRA action plans of the Bank.

Governmental Monetary Policies and Economic Controls. The Corporation and the Bank are affected by monetary policies of regulatory authorities, including the Federal Reserve, which regulates the national money supply in order to mitigate recessionary and inflationary pressures. Among the techniques available to the Federal Reserve are engaging in open market transactions in United States Government securities, changing the discount rate on bank borrowings, and changing reserve requirements against bank deposits. These techniques are used in varying combinations to influence the overall growth of bank loans, investments and deposits. Their use may also affect interest rates charged on loans or paid on deposits. The effect of governmental policies on the earnings of the Corporation cannot be predicted.

MANAGEMENT

The following table sets forth the names, ages and positions of the Corporation's Directors and Executive Officers.

Name	Age	Position	Director of the Bank/Corporation Since
Class I			
Frank H. Brumback	71	Chairman of the Board	1987
Robert W. Claytor	48	Director	1987
Clifton L. Good	59	Director	1987
Donald L. Unger	54	Director, President and Chief Executive Officer	1992
Class II			
Joseph W. Hollis	42	Director	1987
Gerald H. Kidwell	74	Director	1987
Lewis W. Spangler	54	Director	1987
Thomas W. Grove	56	Director	1992
Class III			
W. Houston Board, III	49	Director	1987
Ralph S. Gregory	57	Director	1987
George R. Irvin, Jr.	60	Director	1987

Class I Directors

Frank H. Brumback is 71 years old and has served as a director of the Corporation since 1989 and a director of the Bank since 1987. He is Chairman of the Bank and the Corporation; Vice President of Woodbine Farms, Incorporated (orchardist) in Winchester, Virginia, and President of BGW, Incorporated (real estate) in Winchester, Virginia

Robert W. Claytor is 48 years old and has served as a director of the Corporation since 1989 and of the Bank since 1987. He is President and General Manager of H. N. Funkhouser & Company (petroleum distributor) in Winchester, Virginia.

Clifton L. Good is 59 years old and has served as a director of the Corporation since 1989 and of the Bank since 1987. He is retired and the former President of Clifton L. Good Realty, Incorporated in Front Royal, Virginia.

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Donald L. Unger is 54 years old and has served as a director of the Corporation since 1992 and of the Bank since 1992. He has served as President and Chief Executive Officer of The Marathon Bank and of the Corporation since April 1992.

Class II Directors

Joseph W. Hollis is 42 years old and has served as a director of the Corporation since 1989 and of the Bank since 1987. He is President of B. J. Sager (beer distributor) in Winchester, Virginia.

Gerald H. Kidwell is 74 years old and has served as a director of the Corporation since 1989 and of the Bank since 1987. He is a farmer and former budget analyst with the federal government in Washington, D.C.

Lewis W. Spangler is 54 years old and has served as a director of the Corporation since 1989 ard of the Bank since 1987. He is Vice President of Jones & Frank Corporation (petroleum equipment sales and distribution) in Winchester, Virginia; and Vice President and Manager of Oil Equipment Properties (real estate in Winchester, Virginia).

Thomas W. Grove is 56 years old and has served as a director of the Corporation since 1992 and of the Bank since 1993. He is President of T. W. Grove Construction, Inc. in Front Royal, Virginia.

Class III Directors

W. Houston Board, III is 49 years old and has served as a director of the Corporation since 1989 and of the Bank since 1987. He is President and a Director of B.T.B., Inc. (tire dealer) in Front Royal and Winchester, Virginia.

Ralph S. Gregory is 57 years old and has served as a director of the Corporation since 1989 and of the Bank since 1987. He is President of Gregory's Incorporated (commercial contractor) in Stephens City, Virginia.

George R. Irvin, Jr. is 60 years old and has served as a director of the Corporation since 1989 and of the Bank since 1987. He is retired and the former chairman of Irvin, Incorporated (wholesale candy and tobacco distributor) in Edinburg, Virginia.

Board Committees

The Corporation's Board of Directors meets monthly and also holds an organizational meeting following the conclusion of the Annual Meeting of Stockholders. Special meetings are held when necessary. The Board of Directors met 12 times during the fiscal year ended December 31, 1995. Each incumbent director attended at least 75% of the aggregate of the number of meetings of the Board and the number of meetings held by all committees on which he served.

The Board of Directors of the Corporation has standing Audit, Loan and Personnel Committees.

The Audit Committee is responsible for receiving the audit and examination reports of the internal accounting staff, the independent public accountants and the banking examiners. The Audit Committee held five meetings in 1995. The present members of the Audit Committee are Messrs. Hollis, Board, Good and Kidwell.

The Loan Committee considers new loan applications which are in excess of individual officer limits and monitors (with management) the Corporation's loan portfolio. The Loan Committee held 36 meetings in 1995. The present members of the Loan Committee are Messrs. Claytor, Good, Gregory, Brumback, Spangler, Grove, Kidwell and Unger.

The Personnel Committee is responsible for supervising, hiring and setting compensation levels for the Bank's personnel. The Personnel Committee met two times in 1995. The present members of the Personnel Committee are Messrs. Irvin, Claytor, Hollis, Spangler and Unger.

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Indebtedness and Other Transactions

Certain directors and executive officers of the Corporation, members of their immediate families and corporations, partnerships and other entities with which such persons are associated are customers of the Corporation. As such, they had transactions in the ordinary course of business with the Corporation during the fiscal year ended December 31, 1995, and will have additional transactions with the Corporation in the future. All loans and commitments to lend included in such transactions were made in the ordinary course of business and upon substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing for comparable transactions with the general public. In the opinion of management, none of the transactions involved more than the normal risk of collectibility or presented other unfavorable features. At June 30, 1996, loans from the Corporation to all executive officers and directors, their immediate families and/or affiliated companies in which they are principals amounted to approximately $1.460 million. This amount represented approximately 49.27% of the stockholders' equity of the Corporation as of June 30, 1996.

On July 1, 1996, the Corporation entered into a 20 year property lease with Post Office Plaza, L.C. ("Related Party"), a limited liability corporation, which is owned 25% by Donald L. Unger, President, Chief Executive Officer and a director of the Corporation, and 25% by Thomas W. Grove, a director of the Corporation. The lease provides for fixed annual payments in the amount of $46,153 for the first five years of the term, after which payments increase annually in conjunction with the consumer price index. Prior to the consummation of such lease, the Corporation was permitted to finance and construct a branch facility on such property with the understanding that upon completion of the construction the Corporation would enter into a long term lease with the Related Party and the Related Party would reimburse the Corporation for all direct costs incurred with respect to the construction of the branch. As of June 30, 1996, the project was substantially complete, the Corporation had invested $237,365 in construction costs for which the Related Party had verbally committed to reimburse the Corporation upon consummation of the lease.

Prior to the execution of the aforementioned Post Office Plaza lease, the Corporation maintained a portable branch facility on property owned by the Related Party. The Corporation paid $500 per month to the Related Party for such use.

Directors' Compensation

The Corporation's Directors receive a fee of $250 per meeting for their services. Committee members receive $35 per meeting as compensation for their services.

Executive Compensation

The following table presents information concerning the annual and long-term compensation of Donald L. Unger who was, at December 31, 1995, the Corporation's chief executive officer, who is the only executive officer who received cash compensation in excess of $100,000 in 1995. This table presents compensation for services rendered in all capacities to the Corporation in 1995, 1994 and 1993.

Summary Compensation Table

		Annual Compensation			All Other Compensation(1)
Name and Principal	Fiscal Year	Salary	Bonus	Other Annual Compensation(2)	
Donald L. Unger	1995	$100,000	$7,000	$14,600	$2,000
President and CEO	1994	100,000	7,000	14,600	2,000
	1993	100,000	0	14,600	0

(1) Reflects the Corporation's matching contribution under its 401(k) retirement plan.
(2) Represents deferred compensation payable to Mr. Unger upon termination of employment, payment of Mr. Unger's country club dues and the value of the use of a company vehicle.

The following table presents, for the executive officer listed in the

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Summary Compensation Table, information regarding (i) his exercise of stock options in 1995 and (ii) the number and value of all his unexercised stock options at December 31, 1995.

Aggregated Option Exercises in 1995 and December 31, 1995 Option Values

Name	Shares Acquired on Exercise (#)	Value Realized Upon Exercise ($)	Number of Unexercised Options at December 31, 1995(#) Exercisable/ Unexercisable	Value of Unexercised in-the-money Options at December 31, 1995($) Exercisable/ Unexercisable(1)
Donald L. Unger	0	$0	500/0	$0

(1) Based upon a market value of $5.00 per share.

Chief Executive Officer Employment Agreement and Incentive Bonus Plan

The Corporation and Donald L. Unger, President and Chief Executive Officer, entered into a written employment agreement on April 13, 1992, to be effective as of April 13, 1992 ("Unger Employment Agreement"). The Unger Employment Agreement provides that Mr. Unger will serve on the Board of Directors of the Corporation, subject to shareholder election, until his employment ends. Under the terms of the Unger Employment Agreement, Mr. Unger receives an annual salary of $100,000, together with certain other customary benefits. In the event of a change of control of the Corporation (as defined in the Unger Employment Agreement), Mr. Unger will receive a one time cash payment equal to his annual salary at the date of change of control multiplied by the percentage by which the Corporation's appraised value exceeds its book value. Such payment is not to exceed 300% of Mr. Unger's annual salary at the date of change in control.

1996 Employee and Director Stock Option Plan

The Board of Directors of the Corporation has approved the 1996 Employee and Director Stock Option Plan (the "Plan"), subject to approval of the Corporation's shareholders at their 1997 Annual Meeting. The Plan will permit the issuance of stock options to directors and key employees in an aggregate amount not to exceed 10% of the outstanding common stock of the Corporation, and in no event to exceed 350,000 shares during the term of the Plan. Options will expire ten years after the date of grant.

Under the Plan, each non-employee director of the Corporation will be granted options to purchase 10,000 shares of the Corporation's common stock at the Public Offering price, of which options to purchase 5,000 shares will be immediately exercisable upon shareholder approval of the Plan, and the remaining 5,000 shares will vest at the rate of 1,000 shares per year, commencing in 1998 and continuing through 2002.

In addition, certain key employees of the Bank, including Donald L. Unger, President and Chief Executive Officer, will be granted options under the Plan to purchase shares at the Public Offering price. Mr. Unger will receive optins to purchase 22,500 shares, of which options to purchase 10,000 shares will be immediately exercisable upon shareholder approval of the Plan, and the remaining 12,500 of which will become exercisable at the rate of 2,500 shares per year, commencing in 1998 and continuing through 2002.

Employee Benefit Plans

The Corporation has adopted a plan that is qualified under Section 401(k) of the Internal Revenue Code for the benefit of its eligible employees. Employees are not required to contribute to the plan but may contribute, subject to the statutory maximum, from their annual salary before taxes. Employees who have attained age 21 and completed six months of service are eligible to participate in the plan beginning on the January 1 or July 1 following their six-month anniversary. The Corporation made a contribution to the plan for the year ending December 31, 1995 in the amount of $9,601. No contributions were made for the years ending December 31, 1994 and 1993.

Security Ownership of Management

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The following table sets forth for (i) each director and executive officer of the Corporation, (ii) each beneficial owner of 5% or more of the outstanding shares of the Corporation's Common Stock, and (iii) all directors and executive officers of the Corporation as a group: (1) the number of shares of the Corporation's Common Stock beneficially owned on June 30, 1996 and (2) the percentage of ownership of outstanding shares of the Bank's Common Stock on said date. All of the Corporation's directors and executive officers receive mail at the Corporation's principal executive office at 4095 Valley Pike, Winchester, Virginia 22602.

Name of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percent of of Class
W. Houston Board, III	19,660	2.09%
Frank H. Brumback	35,323(2)	2.70
Robert W. Claytor	44,679(3)	3.42
Clifton L. Good	49,363(4)	3.78
Ralph S. Gregory	69,547(5)	5.32
Thomas W. Grove	8,520	0.66
Joseph W. Hollis	57,951(6)	4.40
George R. Irvin, Jr.	54,012(7)	4.55
Gerald H. Kidwell	55,029(8)	4.21
Lewis W. Spangler	39,267(9)	3.01
Donald L. Unger	4,019(10)	0.31
Beneficial ownership of Common Stock; by all directors and executive officers as a group (11 persons)	450,014	34.45

(1) In calculating the number of shares of Common Stock which are beneficially owned (and thus the percentage of Common Stock beneficially owned), a person is deemed to own Common Stock if that person has the right to acquire beneficial ownership of Common Stock within sixty (60) days through the exercise of any option, warrant or right, or through the conversion of any security. Accordingly, none of the options granted under the 1996 Employee and Director Stock Option Plan are included in the listed shares because the options are subject to shareholder approval of the Plan at the shareholder's 1997 Annual Meeting. See "--1996 Employee and Director Stock Option Plan."

(2) Includes 16,802 shares held jointly.
(3) Includes 34,869 shares held by, or jointly with, spouses, children or trusts.
(4) Includes 40,966 shares held by, or jointly with, spouses, children or trusts or Clifton L. Good Realty, Incorporated.
(5) Includes 58,021 shares held by, or jointly with, spouses, children or trusts.
(6) Includes 39,276 shares held by, or jointly with, spouses, children or trusts.
(7) Includes 1,110 shares held by, or jointly with, spouses, children or trusts.
(8) Includes 54,020 shares held by, or jointly with, spouses, children or trusts.
(9) Includes 402 shares held by, or jointly with, spouses, children or trusts.
(10) Includes 19 shares held by, or jointly with, spouses, children or trusts.

Unless otherwise indicated in the footnotes above, the individuals named above have sole voting and dispositive powers over the shares beneficially owned by them.

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DESCRIPTION OF CAPITAL STOCK

Authorized and Outstanding Capital Stock

The Corporation's Articles of Incorporation authorize 20,000,000 shares of Common Stock, par value $1.00, of which 1,306,303 shares were issued and outstanding on June 30, 1996. The Articles of Incorporation also authorize 1,000,000 shares of preferred stock, no par value, of which no shares were issued and outstanding at June 30, 1996.

Characteristics of Common Stock

Certain characteristics of the Corporation's Common Stock are summarized below:

Dividend Rights. The Corporation may pay dividends as declared from time to time by the Board of Directors out of funds legally available therefor, subject to certain restrictions imposed by federal and state laws. See "Business - Supervision and Regulation - Limits on Dividends and Other Payments." The holders of Common Stock are entitled to receive and share equally in any dividends as may be declared by the Board of Directors.

Voting Rights. In all elections of directors, each stockholder has the right to cast one vote for each share of Common Stock owned by him and is entitled to vote for as many persons as there are directors to be elected. Stockholders of the Corporation do not have cumulative voting rights. On any other question to be determined by a vote of shares at any meeting of stockholders, each stockholder shall be entitled to one vote for each share of Common Stock owned by him and entitled to vote.

Liquidation Rights. Upon liquidation, after payment of all creditors, including without limitation the liquidation preference per share of preferred stock, if any is outstanding, the remaining assets of the Corporation would be distributed to the holders of the Common Stock on a pro rata basis.

Preemptive Rights. Holders of Common Stock have no preemptive rights with respect to the issuance of additional shares of Common Stock.

Calls and Assessments. All Common Stock outstanding is fully paid and nonassessable.

Reports to Stockholders. The Corporation furnishes its stockholders with annual reports, including audited financial statements, as well as quarterly reports containing unaudited financial information.

Transfer Agent. The Corporation acts as its own transfer agent.

Characteristics of Preferred Stock

The Board of Directors may determine the preferences, limitations, and relative rights, to the extent permitted by the Virginia Stock Corporation Act, of any class or series of shares of Preferred Stock before the issuance of any shares of that class or series.

Warrants to Acquire Common Stock

As part of the recapitalization of the Corporation in 1992, the Corporation, in private placements, issued two rounds of Common Stock at $5.00 per share, convertible Preferred Stock convertible into Common Stock at $5.00 per share (which has since been converted) and warrants to purchase Common Stock at $5.00 per share. At

June 30, 1996, there were warrants to purchase 200,688 shares of Common Stock outstanding which are exercisable through June 30, 1997.

Limitations on Liability of Directors

Section 13.1-692.1 of the Virginia Stock Corporation Act ("Virginia Act") authorizes a Virginia corporation to reduce or eliminate the damages that can be assessed against an officer or director arising out of a single transaction. The Corporation's bylaws provide that no member of the Corporation's Board of Directors shall be liable for any amount in any proceeding brought against him or her as a director. The Virginia Act provides that the liability of a director may not be limited if the director engages in willful misconduct or a knowing violation of the criminal law or of any federal

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or state securities law, including any claim of unlawful insider trading or manipulation of the market for any security.

Indemnification of Directors

Sections 13.1-697 and 13.1-698 of the Virginia Act set forth certain provisions regarding the indemnification of directors. Generally, these provisions of the Virginia Act allow a corporation to indemnify a director if: (i) he conducted himself in good faith; (ii) he believed (a) in the case of conduct in his official capacity, that his conduct was in the corporation's best interests, and (b) in all other cases, that his conduct was at least not opposed to its best interests; and (iii) in the case of any criminal proceeding, that he had no reasonable cause to believe his conduct was unlawful. Under the Virginia Act, a corporation may not indemnify a director (i) in connection with a proceeding by or in the right of the corporation in which the director is adjudged liable to the corporation; or (ii) in any other proceeding charging improper personal benefit to him, in which he is adjudged liable on the basis that personal benefit was improperly received by him. The Virginia Act also prohibits indemnification of a director for willful misconduct or a knowing violation of the criminal law.

The Corporation's Articles of Incorporation call for the indemnification of (a) any person who was or is a party to any proceeding, including a proceeding brought by a shareholder in the right of the Corporation or brought by or on behalf of shareholders of the Corporation, by reason of the fact that he is or was a Director or officer of the Corporation, or (b) any Director or officer who is or was serving at the request of the Corporation as a director, trustee, partner or officer of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against any liability incurred by him in connection with such proceeding unless he engaged in willful misconduct or a knowing violation of criminal law.

Federal Law Restrictions on Acquisition of the Bank

Under the Bank Holding Company Act of 1956 ("BHCA") and regulations promulgated thereunder by the Federal Reserve, no company may acquire "control" of institutions that offer demand deposit accounts and make commercial loans without the prior approval of the Federal Reserve. The ownership of, control, holding with power to vote of, or holding proxies representing 25% or more of any class of voting securities is presumed to be a "controlling" interest under the BHCA, and, depending on the circumstances, control may be found to exist below this level of ownership. Any company acquiring such control would become a bank holding company, would be subject to certain limitations and prohibitions on its operations, and would become subject to registration, examination and supervision by the Federal Reserve. The Federal Reserve may withhold approval of an application to become a bank holding company on certain specified grounds.

Articles of Incorporation

Limitation on Ownership in Excess of 9.99%. The Articles of Incorporation restrict the transfer, sale, assignment, gift, pledge, or bequest of a beneficial interest in common stock of the Corporation to an "interested shareholder" without prior approval by a majority of the Corporation's Board of Directors.

An "interested shareholder" is any person, firm, corporation, partnership, joint venture, or other entity whom either directly or indirectly, through the use of an associate or affiliate, is or becomes a beneficial owner of stock in excess of 9.99% of the total outstanding common shares of the Corporation. Any shares acquired in excess of the 9.99% threshold will be considered excess shares, and such transfer will be considered null and void.

Such restriction is marked conspicuously on the front and back of the stock certificate in compliance with Section 13.1-648.B of the Virginia Code requiring adequate notification of any such restriction.

The Corporation's Articles of Incorporation provide for a classified Board of Directors which is divided into three classes, with each class serving a three-year term and one class of directors being elected each year. In addition to classifying the Board of Directors, the Articles of Incorporation also provide, subject to the rights of holders of any outstanding preferred stock, that directors can be removed during their terms of office for cause only by the affirmative vote of the holders of more than two-thirds of the then outstanding voting shares. Thus, holders of a majority (but less than two-thirds) of the Corporation's outstanding shares might not be able to remove a director, even for cause, for up to three years. The Articles of Incorporation also would require the affirmative vote of more than two-thirds of the

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outstanding voting shares to increase or decrease the number of directors by more than 30% of the number of directors last elected by the stockholders.

The Corporation has not adopted many of the conventional anti-takeover provisions such as a fair-price charter amendment, a super-majority vote charter amendment, or an anti-greenmail charter amendment. The Articles of Incorporation do, however, as permitted by Virginia law, in addition to staggering the terms of the members of the Board of Directors, provide the Board of Directors with flexibility to eliminate the right of stockholders to call a special meeting and, as explained below, to fix the stockholder vote required for certain corporate actions.

Virginia law provides that certain significant corporate actions must be approved by a vote of more than two-thirds of the votes entitled to be cast on the matter, unless the Articles of Incorporation provide otherwise. These actions include amendments to a corporation's articles of incorporation, plans of merger or exchange, sales of substantially all assets other than in the ordinary course of business or plans of dissolution ("Fundamental Actions"). Virginia law also provides that a corporation's articles of incorporation may either increase the vote required to approve Fundamental Actions or decrease the required vote to not less than a majority of all the votes cast by each voting group entitled to vote on the transaction at a meeting at which a quorum of the voting group exists.

The Articles of Incorporation decrease the stockholder vote required to approve amendments to the Articles of Incorporation to a majority of the shares cast on such proposed amendments, unless the Board of Directors conditions its submission of a proposed amendment on receipt of a greater vote. The Articles of Incorporation also provide that, unless the Board of Directors conditions its submission of a proposed Fundamental Action (other than an amendment to the Articles of Incorporation) on receipt of a greater vote, any Fundamental Action that requires stockholder approval must be approved by a vote of more than two-thirds of the votes entitled to be cast on such Fundamental Action.

The effect of these provisions is to make stockholder approval of Fundamental Actions less difficult to obtain in the case of Fundamental Actions favored by the Board of directors. A lower required stockholder vote on amendments to the Articles of Incorporation will benefit the Corporation in terms of cost savings related to the solicitation efforts necessary to obtain a more than two-thirds vote. If, however, the Board of directors conditions approval of a Fundamental Action on receipt of a higher stockholder vote, this provision will make approval of the Fundamental Action more difficult to obtain. For this reason, these provisions of the Articles of Incorporation and Virginia law have anti-takeover implications in that they permit the Board of Directors to make a Fundamental Action not approved by it more difficult to adopt.

UNDERWRITING

The Underwriter, McKinnon & Company, Inc., 555 Main Street, Norfolk, Virginia, has agreed, subject to the terms and conditions contained in an underwriting agreement with the Corporation, to sell, as selling agent for the Corporation on a best efforts basis, the Shares offered in the Subscription Offering that are not purchased by stockholders, together with 400,000 additional Shares. The Underwriter is not obligated to purchase the Shares if they are not sold to the public.

The Underwriter has informed the Corporation that it proposes to offer the Shares as selling agent for the Corporation, subject to prior sale, when, as and if issued by the Corporation, in part to the public at the Public Offering price, and in part through certain selected dealers to customers of such selected dealers at the Public Offering price, for which such selected dealers will receive a commission of ___% of the Public Offering price of such Shares. The Underwriter reserves the right to reject any order for the purchase of Shares through it, in whole or in part. The Corporation will pay the Underwriter a $10,000 financial advisory/standby fee in connection with the Subscription Offering.

The Public Offering is not contingent upon the occurrence of any event or the sale of a minimum or maximum number of Shares. Funds received by the Underwriter from investors in the Public Offering will be deposited with and held by the Escrow Agent in a noninterest-bearing escrow account until the closing of the Public Offering.

The Corporation has applied to list its Common Stock on the NASDAQ SmallCap Market under the symbol "MFCV"; however, there can be no assurance that an active trading market for the Corporation's Common Stock will develop after the Offerings, or if developed, that such a market will be sustained. The Corporation believes that it meets all the criteria for inclusion on the NASDAQ

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SmallCap Market and that its application for listing will be approved at the closing of the Offerings, although no assurance can be given in this regard.

The Subscription Offering price was determined by the Corporation after consultation with the Underwriter. The Public Offering price was determined by negotiations between the Corporation and the Underwriter. Among the factors considered in determining the price were the history and the prospects for the Corporation, its past and present earnings and trend of such earnings, the prospects for future earnings, the current performance and prospects of the banking industry in which it competes, the general condition of the securities market at the time of the Public Offering, and the prices of equity securities of comparable companies.

The directors of the Corporation have agreed that they will not sell, contract to sell, or otherwise dispose of any shares of Common Stock or any securities convertible into or exchangeable for any shares of Common Stock for a period of 120 days after the date of the commencement of the Offerings without the prior written consent of the Underwriter. Officers of the Corporation who are not directors have not entered into any agreements restricting sales of their Common Stock in the Corporation. The Underwriter may from time to time be a customer of, engage in transactions with, and perform services for the Corporation in the ordinary course of business.

The Corporation has agreed to indemnify the Underwriter against certain civil liabilities, including liability under the Securities Act of 1933, as amended. The Corporation has agreed to pay the Underwriter's legal fees, which will not exceed $10,000, and to reimburse the Underwriter for up to $1,000 for costs of informational and due diligence meetings.

LEGAL MATTERS

The validity of the shares of Common Stock offered hereby will be passed upon for the Corporation by Kaufman & Canoles, P.C. of Norfolk, Virginia. Certain legal matters are being passed upon for the Underwriter by Kaufman & Canoles, P.C.

EXPERTS

The financial statements of the Bank at December 31, 1995 and 1994 and for the three year period ended December 31, 1995 included in this Prospectus have been audited by Yount, Hyde & Barbour, P.C., independent certified public accountants, to the extent and for the periods indicated in their report thereon, and are included in reliance upon the authority of Yount, Hyde & Barbour, P.C., as experts in accounting and auditing.

Part F/S

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Marathon Financial Corporation
Winchester, Virginia

We have audited the accompanying consolidated balance sheets of Marathon Financial Corporation and Subsidiaries, as of December 31, 1995 and 1994, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 1995, 1994 and 1993. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marathon Financial Corporation and Subsidiaries, as of December 31, 1995 and 1994, and the results of its operations and its cash flows for the years ended December 31, 1995, 1994 and 1993, in conformity with generally accepted accounting principles.

As discussed in Note 1, the Corporation changed its method of accounting for investments in debt and equity securities to adopt the provisions of Statements of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" in 1994.

/s/ Yount, Hyde & Barbour, P.C.

Winchester, Virginia
January 31, 1996

MARATHON FINANCIAL CORPORATION

Consolidated Balance Sheets

December 31, 1995 and 1994

<TABLE>
<CAPTION>

Assets	1995	1994
<S> <C>		
Cash and due from banks	$ 2 282 876	$ 1 788 496
Securities (fair value: 1995, $1,708,102 and 1994, $1,450,973) (Note 2)	1 699 472	1 489 791
Federal funds sold	1 574 000	277 000
Loans, net (Notes 3 and 4)	28 774 020	22 618 297
Bank premises and equipment, net (Notes 5 and 9)	1 288 463	1 242 102
Organization costs, at amortized cost (Note 6)	- -	5 064
Accrued interest receivable	159 066	172 734
Other real estate	236 123	- -
Other assets	55 999	88 743
	$ 36 070 019	$ 27 682 227

Liabilities and Stockholders' Equity

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Liabilities		
Deposits:		
Noninterest bearing	$ 5 261 411	$ 3 759 042
Interest bearing	27 360 753	20 845 174
Total deposits (Note 7)	$ 32 622 164	$ 24 604 216
Interest expense payable	60 151	134 969
Accounts payable and accrued expenses	93 220	54 984
Mortgage payable	507 134	529 368
Capital lease payable (Note 9)	109 600	114 721
Commitments and contingent liabilities (Notes 10 and 13)	- -	- -
Total liabilities	$ 33 392 269	$ 25 438 258
Stockholders' Equity		
Preferred stock, Series A, 5% noncumulative, no par value; 1,000,000 shares authorized; 1995, no shares issued and outstanding; 1994, 200,688 shares issued and outstanding	$ - -	$ 1 003 440
Common stock, $1 par value; 20,000,000 shares authorized; 1995, 1,306,303 shares issued and outstanding; 1994, 1,078,601 shares issued and outstanding	1 306 303	1 078 601
Capital surplus	5 109 908	4 199 100
Retained earnings (deficit)	(3 746 878)	(4 029 140)
Unrealized gain (loss) on securities available for sale	8 417	(8 032)
Total stockholders' equity	$ 2 677 750	$ 2 243 969
	$ 36 070 019	$ 27 682 227

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Income

Years Ended December 31, 1995, 1994 and 1993

<TABLE>
<CAPTION>

<S> <C>	1995	1994	1993
Interest income:			
Interest and fees on loans	$ 2 786 074	$ 2 123 881	$ 1 463 942
Interest on investment securities:			
Taxable	42 788	67 870	- -
Nontaxable	15 000	15 000	- -
Interest and dividends on securities available for sale:			
Taxable	16 559	13 452	123 143
Nontaxable	- -	- -	15 000
Dividends	13 060	5 404	3 374
Interest on federal funds sold	66 829	25 641	19 683
Total interest income	$ 2 940 310	$ 2 251 248	$ 1 625 142
Interest expense:			
Interest on deposits (Note 7)	$ 1 203 143	$ 801 614	$ 661 920
Interest on mortgage payable	38 949	40 550	54 742
Interest on capital lease obligation	8 610	2 816	- -
Interest on federal funds purchased	1 536	3 933	430
Total interest expense	$ 1 252 238	$ 848 913	$ 717 092
Net interest income	$ 1 688 072	$ 1 402 335	$ 908 050
Provision for loan losses (Note 4)	113 419	151 533	12 100

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Net interest income after provision for loan losses	$ 1 574 653	$ 1 250 802	$ 895 950
Other income:			
Service charges on deposit accounts	$ 227 776	$ 112 899	$ 56 264
Commissions and fees	45 207	31 725	27 062
Gain on redemption of investment securities	- -	19 125	- -
Settlement of legal disputes	- -	58 847	- -
Other	8 346	19 393	10 098
Total other income	$ 281 329	$ 241 989	$ 93 424

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Income

(Continued)

Years Ended December 31, 1995, 1994 and 1993

<TABLE>
<CAPTION>

<S> <C>	1995	1994	1993
Other expenses:			
Salaries and employee benefits	$ 675 948	$ 523 017	$ 385 230
Net occupancy expense of premises	110 478	91 624	75 701
Furniture and equipment	98 969	57 100	75 632
Other (Note 12)	550 046	502 574	372 292
Total other expenses	$ 1 435 441	$ 1 174 315	$ 908 855
Income before income taxes	$ 420 541	$ 318 476	$ 80 519
Provision for income taxes (Note 8)	- -	- -	- -
Net income	$ 420 541	$ 318 476	$ 80 519
Earnings per common and equivalent share (Note 1)	$ .35	$ .30	$ .08

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 1995, 1994 and 1993

<TABLE>
<CAPTION>

<S> <C>	Capital Stock Preferred	Capital Stock Common	Capital Surplus	Retained Earnings (Deficit)	Unrealized Gain (Loss) on Securities Available for Sale	Total Stockholders' Equity
Balance, December 31,						

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1992	$ 1 003 440	$ 992 335	$ 3 854 036	$ (4 352 800)	$ - -	$ 1 497 011
Net income - 1993	- -	- -	- -	80 519	- -	80 519
Sale of common stock (71,199 shares)	- -	71 199	284 796	- -	- -	355 995
Issuance of common stock (5,030 shares)	- -	5 030	20 120	(25 150)	- -	- -
Balance, December 31, 1993	$ 1 003 440	$ 1 068 564	$ 4 158 952	$ (4 297 431)	$ - -	$ 1 933 525
Net income - 1994	- -	- -	- -	318 476	- -	318 476
Issuance of common stock (10,037 shares)	- -	10 037	40 148	(50 185)	- -	- -
Unrealized gain (loss) on securities available for sale	- -	- -	- -	- -	(8 032)	(8 032)
Balance, December 31, 1994	$ 1 003 440	$ 1 078 601	$ 4 199 100	$ (4 029 140)	$ (8 032)	$ 2 243 969
Net income - 1995	- -	- -	- -	420 541	- -	420 541
Issuance of common stock (15,045 shares)	- -	15 045	60 180	(75 225)	- -	- -
Issuance of common stock - stock dividend (11,969 shares) (Note 11)	- -	11 969	47 876	(59 845)	- -	- -
Cash to be paid in lieu of fractional shares	- -	- -	- -	(3 209)	- -	(3 209)
Unrealized gain (loss) on securities available for sale	- -	- -	- -	- -	16 449	16 449
Conversion of preferred stock to common stock (200,688 shares)	(1 003 440)	200 688	802 752	- -	- -	- -
Balance, December 31, 1995	$ - -	$ 1 306 303	$ 5 109 908	$ (3 746 878)	$ 8 417	$ 2 677 750

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Cash Flows

Years Ended December 31, 1995, 1994 and 1993

<TABLE>
<CAPTION>

<S> <C>

	1995	1994	1993
Cash Flows from Operating Activities			
Net income	$ 420 541	$ 318 476	$ 80 519
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	16 194	34 670	41 428
Depreciation	103 366	73 710	88 118
Provision for loan losses	113 419	151 533	12 100
Writedown of other real estate	42 581	- -	- -
Gain on redemption of investment securities	- -	(19 125)	- -
Accretion of securities discounts, net	(2 567)	(2 210)	(4 299)
Changes in assets and liabilities:			
(Increase) decrease in other assets	21 614	(9 440)	(6 496)
(Increase) decrease in accrued interest receivable	13 668	(68 341)	26 444
Increase (decrease) in accounts payable and accrued expenses	35 027	43 672	(112 626)
Increase (decrease) in interest expense payable	(74 818)	(143 266)	15 282
Net cash provided by operating activities	$ 689 025	$ 379 679	$ 140 470

Cash Flows from Investing Activities

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	1995	1994	1993
Proceeds from maturities, calls and principal payments of investments securities	$ 21 240	$ 800 362	$ - -
Proceeds from maturities and principal payments of securities available for sale	4 901	23 648	861 703
Purchase of investment securities	- -	(538 833)	- -
Purchase of securities available for sale	(216 806)	(244 336)	(207 000)
Net (increase) in loans	(6 547 846)	(4 620 745)	(7 333 303)
Purchase of equipment	(128 332)	(56 076)	(80 329)
Net cash (used in) investing activities	$ (6 866 843)	$ (4 635 980)	$ (6 758 929)
Cash Flows from Financing Activities			
Net increase in demand deposits, NOW accounts and savings accounts	$ 2 383 106	$ 1 075 894	$ 4 742 518
Net increase in certificates of deposit	5 634 842	3 922 516	1 185 182
Net proceeds from issuance of common stock	- -	- -	355 995
Principal payments on capital lease obligations	(26 516)	(14 931)	- -
Proceeds on refinance of mortgage payable	- -	- -	550 000
Principal payments on mortgage payable	(22 234)	(20 632)	(548 648)
Net cash provided by financing activities	$ 7 969 198	$ 4 962 847	$ 6 285 047

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Cash Flows

(Continued)

Years Ended December 31, 1995, 1994 and 1993

<TABLE>
<CAPTION>

<S> <C>	1995	1994	1993
Increase (decrease) in cash and cash equivalents	$ 1 791 380	$ 706 546	$ (333 412)
Cash and Cash Equivalents			
Beginning	2 065 496	1 358 950	1 692 362
Ending	$ 3 856 876	$ 2 065 496	$ 1 358 950
Supplemental Disclosures of Cash Flow Information, cash payments for interest	$ 1 327 056	$ 992 179	$ 701 810
Supplemental Schedule of Noncash Investing and Financing Activities:			
Other real estate acquired in settlement of loans	$ 278 704	$ - -	$ - -
Issuance of common stock	$ 138 279	$ 50 185	$ 25 150
Equipment acquired under capital lease obligations	$ 21 395	$ 129 652	$ - -
Conversion of preferred stock to common stock	$ 1 003 440	$ - -	$ - -
Unrealized gain (loss) on securities available for sale	$ 16 449	$ (8 032)	$ - -

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</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Banking Activities and Significant Accounting Policies

Marathon Financial Corporation and Subsidiary (the Corporation) grant commercial, financial, agricultural, residential and consumer loans to customers in Virginia. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers.

On December 31, 1993, the Marathon Land Trust was merged into the Marathon Bank. The Marathon Bank acquired all assets and assumed all liabilities of the Trust. This transaction had no effect on the consolidated financial statements presented.

The accounting and reporting policies of the Corporation conform to generally accepted accounting principles and to general practices within the banking industry. The following is a summary of the more significant policies.

Principles of Consolidation

The consolidated financial statements of the Marathon Financial Corporation and its Subsidiaries, include the accounts of all companies. All material intercompany balances and transactions have been eliminated.

Securities

The Corporation adopted FASB No. 115, "Accounting for Certain Investment in Debt and Equity Securities" effective beginning January 1, 1994. This statement addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. Those investments are classified in three categories and accounted for as follows:

a. Securities Held to Maturity

Securities classified as held to maturity are those debt securities the Corporation has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the interest method over their contractual lives.

b. Securities Available for Sale

Securities classified as available for sale are those debt and equity securities that the Corporation intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Corporation's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair

value. Unrealized gains or losses are reported as increases or decreases in stockholders' equity. Realized gains or

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losses, determined on the basis of the cost of specific securities sold, are included in earnings.

c. Trading Securities

Trading securities, which are generally held for the short term in anticipation of market gains, are carried at fair value. Realized and unrealized gains and losses on trading account assets are included in interest income on trading account securities. The Corporation had no trading securities at December 31, 1995 and 1994.

Prior to 1994, the Corporation also classified its securities into three investment categories: trading, available for sale, and held to maturity. The accounting policies for these categories were the same except for securities available for sale, which were carried at the lower of cost or market.

Derivative Financial Instruments

In October, 1994, FASB No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments" was issued. It requires various disclosures for derivative financial instruments which are futures, forward, swap, or option contract, or other financial instruments with similar characteristics. The Corporation does not have any derivative financial instruments as defined under this statement.

Loans

Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Unearned discount on installment loans is recognized as income over the terms of the loans by the interest method. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Loans are charged off when management believes that the collectibility of the principal is unlikely. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful.

On January 1, 1995, the Corporation adopted FASB No. 114, "Accounting by Creditors for Impairment of a Loan." This statement has been amended by FASB No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." Statement 114, as amended, requires that the impairment of loans that have been separately identified for evaluation is to be measured based on the present value of expected future cash flows or, alternatively, the observable market price of the loans or the fair value of the collateral. However, for those loans that are collateral dependent (that is, if repayment of those loans is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable, the measure of impairment of those loans is to be based on the fair value of the collateral. Statement 114, as amended, also requires certain disclosures about investments in impaired loans and the allowance for credit losses and

interest income recognized on loans. The Corporation had no loans subject to FASB 114 at December 31, 1995.

Loans are placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is

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based on management's evaluation of the collectibility of the loan portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily on the straight-line and declining-balance methods. Lease amortization is included in depreciation expense.

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Classifications of Amortization on Assets Acquired Under Capital Leases

The amortization expense on assets acquired under capital leases is included with the depreciation expense.

Earnings Per Share

Earnings per share of common stock are based on the weighted average number of common shares outstanding during each year after giving retroactive effect to the stock dividend declared in 1995.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carry-forwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Organization Costs

The Marathon Bank was organized under the laws of the State of Virginia and commenced operations as a commercial bank on December 15, 1988. Certain expenses incurred prior to this date were deferred and were amortized using the straight-line method over a 60-month period.

In addition, the Marathon Financial Corporation was organized under the laws of the State of Virginia as a bank holding company on October 2, 1990. Certain expenses incurred prior to this date were deferred and were amortized using the

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straight-line method over a 60-month period.

Loan Fees and Costs

Loan origination and commitment fees and direct loan origination costs are being recognized as collected and incurred. The use of this method of recognition does not produce results that are materially different from results which would have been produced if such costs and fees were deferred and amortized as an adjustment of the loan yield over the life of the related loan.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Securities

The amortized cost and fair value of the securities available for sale as of December 31, 1995 and 1994, are as follows:

<TABLE>
<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		1995		
Obligations of U.S. government corporations and agencies	$ 447 801	$ 6 636	$ - -	$ 454 437
Mortgage-backed securities	38 639	1 781	- -	40 420
Other	278 650	- -	- -	278 650
	$ 765 090	$ 8 417	$ - -	$ 773 507
		1994		
U.S. Treasuries and obligations of U.S. government corporations and agencies	$ 289 035	$ 8	$ (8 040)	$ 281 003
Other	262 750	- -	- -	262 750
	$ 551 785	$ 8	$ (8 040)	$ 543 753

</TABLE>

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The amortized cost and fair value of the securities available for sale as of December 31, 1995, by contractual maturity, are shown below.

<TABLE>
<CAPTION>

<S> <C>

	Amortized Cost	Fair Value
Due in one year or less	$ 246 895	$ 252 500
Due after one year through five years	200 906	201 937
Mortgage-backed securities	38 639	40 420
Other	278 650	278 650
	$ 765 090	$ 773 507

</TABLE>

The amortized cost and fair value of securities being held to maturity as of December 31, 1995 and 1994, are as follows:

<TABLE>
<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		1995		
U.S. Treasuries and obligations of U.S. government corporations and agencies	$ 649 946	$ 54	$ (2 625)	$ 647 375
Obligations of state and political subdivisions	150 000	10 590	- -	160 590
Corporate securities	99 819	181	- -	100 000
Mortgage-backed securities	26 200	430	- -	26 630
	$ 925 965	$ 11 255	$ (2 625)	$ 934 595

<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		1994		
U.S. Treasuries and obligations of U.S. government corporations and agencies	$ 649 290	$ - -	$ (38 322)	$ 610 968
Obligations of state and political subdivisions	150 000	4 995	- -	154 995
Corporate securities	99 686	- -	(2 686)	97 000
Mortgage-backed securities	47 062	229	(3 034)	44 257
	$ 946 038	$ 5 224	$ (44 042)	$ 907 220

</TABLE>

The amortized cost and fair value of the securities being held to maturity as of December 31, 1995, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities

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because the corporate securities and mortgages underlying the mortgage-backed securities may be called or prepaid without any penalties.

<TABLE>
<CAPTION>

<S> <C>	Amortized Cost	Fair Value
Due in one year or less	$ 199 946	$ 200 000
Due after one year through five years	450 000	447 375
Due after ten years	150 000	160 590
Corporate securities	99 819	100 000
Mortgage-backed securities	26 200	26 630
	$ 925 965	$ 934 595

</TABLE>

Proceeds from maturities, calls and principal payments of securities available for sale during 1995, 1994 and 1993 were $4,901, $23,648 and $861,703. There were no realized gains or realized losses recognized on these transactions.

Proceeds from maturities, calls and principal payments of securities being held to maturity during 1995 and 1994 were $21,240 and $800,362. There were no realized gains or realized losses recognized on these transactions.

Securities having a book value of $702,448 and $686,478 at December 31, 1995 and 1994 were pledged to secure public deposits and for other purposes required by law.

Note 3. Loans and Related Party Transactions

The loan portfolio as of December 31, 1995 and 1994, is composed of the following:

<TABLE>
<CAPTION>

<S> <C>	1995	1994
Commercial	$ 13 315 029	$ 11 976 315
Real estate - mortgage	6 133 400	4 923 825
Real estate - construction	3 637 433	2 487 939
Installment loans to individuals	6 081 297	3 529 421
	$ 29 167 159	$ 22 917 500
Less allowance for loan losses	393 139	299 203
	$ 28 774 020	$ 22 618 297

</TABLE>

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, executive officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for

comparable transactions with others. These persons and firms (exclusive of loans to any such person which in the aggregate did not exceed $60,000) were indebted to the Bank for loans totaling $1,174,885 and $1,294,697 at December 31, 1995 and 1994, respectively. During 1995, total principal additions were $839,888 and total principal payments were $959,700.

NOTE 4. ALLOWANCE FOR LOAN LOSSES

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Changes in the allowance for loan losses are as follows:

<TABLE>
<CAPTION>

	December 31, 1995	1994	1993
BALANCE, BEGINNING	$ 299 203	$ 224 758	$ 196 476
Provision for loan losses	113 419	151 533	12 100
Recoveries	11 185	12 744	20 367
Loan losses charged to the allowance	(30 668)	(89 832)	(4 185)
BALANCE, ENDING	$ 393 139	$ 299 203	$ 224 758

</TABLE>

Nonaccrual loans excluded from impaired loan disclosure under FASB 114 amounted to $45,445 and $269,314 at December 31, 1995 and 1994, respectively. If interest on these loans had been accrued, such income would have approximated $3,679 and $4,770 for 1995 and 1994, respectively.

NOTE 5. BANK PREMISES AND EQUIPMENT, NET

Bank premises and equipment as of December 31, 1995 and 1994 consists of the following:

	1995	1994
Capital leases - computer	$ 151 047	$ 129 652
Bank premises	1 314 922	1 268 464
Furniture and equipment	553 837	472 290
	$ 2 019 806	$ 1 870 406
Less accumulated depreciation	731 343	628 304
	$ 1 288 463	$ 1 242 102

Depreciation included in operating expense for 1995, 1994, and 1993 was $103,366, $73,710, and $88,118, respectively.

NOTE 6. ORGANIZATION COSTS

Certain costs incurred by the Bank prior to commencing operations on December 15, 1988, were capitalized and amortized over a 60-month life. These costs totaled $108,361.

Certain costs incurred by the Corporation prior to commencing operations on October 2, 1990, were capitalized and amortized over a 60-month life. These costs totaled $60,350.

NOTE 7. DEPOSITS

Deposits outstanding at December 31, 1995, 1994 and 1993 and the related interest expense for the years then ended, are summarized as follows:

<TABLE>
<CAPTION>

	Year Ended December 31, 1995		December 31, 1994	
	Amount	Expense	Amount	Expense
Noninterest bearing	$ 5 261 411	$ - -	$ 3 759 042	$ - -
Interest bearing:				

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Interest checking	$ 1 941 150	$ 48 524	$ 1 731 740	$ 38 974
Money market accounts	3 307 328	92 892	2 366 898	86 388
Regular savings	4 980 952	157 793	5 250 054	211 531
Certificates of deposit:				
Less than $100,000	13 870 161	738 106	9 496 559	418 561
$100,000 and more	3 261 162	165 828	1 999 923	46 160
Total interest bearing	$ 27 360 753	$ 1 203 143	$ 20 845 174	$ 801 614
Total deposits	$ 32 622 164	$ 1 203 143	$ 24 604 216	$ 801 614

</TABLE>

	Year Ended December 31, 1993	
	Expense	Amount
Noninterest bearing	$ 2 480 666	$ - -
Interest bearing:		
Interest checking	$ 1 120 707	$ 23 864
Money market accounts	2 217 352	81 396
Regular savings	6 213 115	192 527
Certificates of deposit:		
Less than $100,000	6 763 082	321 022
$100,000 and more	810 884	43 111
Total interest bearing	$17 125 140	$ 661 920
Total deposits	$19 605 806	$ 661 920

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. INCOME TAXES

Effective January 1, 1993, the Corporation adopted FASB No. 109, "Accounting for Income Taxes". The cumulative effect of the change in accounting principle is deemed immaterial in determining net income for the year ended December 31, 1993.

Net deferred tax assets consist of the following components as of December 31, 1995, 1994 and 1993:

<TABLE>
<CAPTION>

<S> <C>	1995	1994	1993
Deferred tax assets:			
Net operating loss carryforward	$ 1 291 762	$ 1 469 716	$ 1 610 105
Writedown of other real estate	14 478	- -	- -
Less valuation allowance	(1 206 820)	(1 349 715)	(1 450 418)
	$ 99 420	$ 120 001	$ 159 687
Deferred tax liabilities:			
Allowance for loan losses	$ 99 420	$ 120 001	$ 155 450
Deferred loan fees	- -	- -	4 237
	$ 99 420	$ 120 001	$ 159 687
	$ - -	$ - -	$ - -

</TABLE>

The provision for income taxes charged to operations for the years ended December 31, 1995, 1994 and 1993, consists of the following:

<TABLE>
<CAPTION>

1995	1994	1993

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<S> <C>

Current tax effect	$ - -	$ - -	$ - -
Deferred tax expense	142 895	100 703	- -
Benefit of net operating loss	(142 895)	(100 703)	- -
	$ - -	$ - -	$ - -

</TABLE>

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the years ended December 31, 1995, 1994 and 1993, due to the following:

<TABLE>
<CAPTION>

<S> <C>

	1995	1994	1993
Computed "expected" tax expense	$ 142 984	$ 108 282	$ 29 401
Increase (decrease) in income taxes resulting from:			
Reduction of valuation allowance	(142 895)	(100 703)	(14 451)
Tax exempt interest income	(3 173)	(4 754)	(3 200)
Reduced tax due to marginal tax rates	- -	(826)	(11 750)
Other	3 084	(1 999)	- -
	$ - -	$ - -	$ - -

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Under the provisions of the Internal Revenue Code, the Corporation has available approximately $3,799,300 of net operating loss carryforwards which can be offset against future taxable income. The carryforwards expire December 31, 2006. The full realization of the tax benefits associated with the carryforwards depends predominately upon the recognition of ordinary income during the carryforward period.

The loss carryforward at December 31, 1995, for financial reporting purposes is approximately $3,529,874. The differences between the loss carryforward for financial reporting and income tax purposes results principally from timing differences in recognizing start-up costs and the provision for loan losses. No deferred taxes are recorded on these timing differences due to the net operating loss carryforward position of the Corporation.

NOTE 9. LEASES

CAPITAL LEASE

During the year ended December 31, 1994, the Corporation entered into a lease agreement on computer equipment and software. Additional equipment and software was added to the lease during 1995 in the amount of $21,395. The balance of the liability under capital leases at December 31, 1995 in the amount of $109,600 represents the present value of the balance due in future years for lease rentals discounted at 7%. The liability is payable in quarterly installments of $9,017 for principal and interest to June 1, 1999. Since the term of the lease is approximately the same as the estimated useful life of the assets, and the present value of the future minimum lease payments at the beginning of the lease approximated the fair value of the leased assets at that date, the leases are considered to be capital leases and have been so recorded. The lease also requires additional maintenance payments of $4,853 per quarter.

The following is a schedule by years of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 1995:

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Years ending December 31:

1996	$	55 480
1997		55 480
1998		55 480
1999		25 821
Total minimum lease payments	$	192 261
Less estimated executory costs (such as maintenance) included in the total minimum lease payments		67 942
Net minimum lease payments	$	124 319
Less the amount representing interest		14 719
Present value of net minimum lease payments	$	109 600

LEASE COMMITMENTS AND TOTAL RENTAL EXPENSE

During the year ended December 31, 1994, the Corporation entered into a five-year operating lease for the rental of a branch location. The lease expires on September 30, 1999 and has two five-year renewal options. The lease provides that the Corporation pay all property taxes, insurance and maintenance plus an annual rental of $12,000 for the initial lease period commencing on April 1, 1995. The total minimum lease commitment at December 31, 1995 under this lease is $51,000 which is due as follows:

1996	$	12 000
1997		12 000
1998		12 000
1999		12 000
2000		3 000
	$	51 000

There was $9,000 in rental expense resulting from this lease included in the consolidated statements of income for the year ended December 31, 1995.

FIXED EQUIPMENT ON LAND LEASED WITH RELATED PARTIES

Fixed equipment with a depreciated cost at December 31, 1995 of $21,904 is located on land leased from a partnership of which the Corporation's president is a partner. The lease expires on June 30, 1996, and includes an option to buy agreement; whereby the Corporation can purchase the property for $150,000 at any time on or before June 30, 1996. The total minimum lease commitment at December 31, 1995, under this lease is $6,600 payable in 1996.

As of December 31, 1995 the Corporation has invested $36,614 in the construction of a new building on this site. The total estimated cost of the finished building is $225,000. The Corporation has agreed to finance the construction of the building with the understanding that the lessor will reimburse the Corporation for all costs and will lease the building to the Corporation for a rental expense to be determined based on the total cost of the finished building and a land value of $150,000. The estimated date of completion for the project is June 1, 1996 at which time the lease terms will be renegotiated.

NOTE 10. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, there are other outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. See Note 13 with respect to financial instruments with off-balance-sheet risk.

As members of the Federal Reserve System, the Corporation is required to maintain certain average reserve balances. For the final weekly reporting period in the year ended December 31, 1995 this requirement was $65,000. For the final weekly reporting period in the year ended December 31, 1994, there was no daily average required balance.

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NOTE 11. DIVIDEND RESTRICTIONS

Federal and state regulations limit the amount of dividends which the Corporation can pay without obtaining prior approval and, additionally, federal regulations require that the Corporation maintain minimum capital requirements. As of December 31, 1995, the Corporation was required to obtain prior approval on any dividend declared.

The Corporation did obtain approval from the State Corporation Commission to pay a stock dividend and on December 19, 1995, the Board of Directors declared a stock dividend equal to 15% of net income, payable February 8, 1996, to stockholders of record December 19, 1995. This dividend has been reflected in the accompanying financial statements.

Transfers of funds from the banking subsidiary to the parent corporation in the form of loans, advances and cash dividends are restricted by federal and state regulatory authorities. As of December 31, 1995, no unrestricted funds could be transferred from the banking subsidiary to the parent corporation, without prior regulatory approval.

NOTE 12. OTHER EXPENSES

The principal components of "Other expenses" in the Consolidated Statements of Income are:

<TABLE>
<CAPTION>

<S> <C>	1995	1994	1993
FDIC assessment	$ 33 798	$ 52 377	$ 39 513
Other real estate valuation	42 581	- -	- -
Marketing	53 619	32 522	16 193
Stationery and supplies	48 225	30 486	16 976
Other (includes no items in excess of 1% of total revenue)	371 823	387 189	299 610
	$ 550 046	$ 502 574	$ 372 292

</TABLE>

NOTE 13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Corporation is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contract or notional amount of the Corporation's exposure to off-balance-sheet risk as of December 31, 1995 and 1994 is as follows:

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	1995	1994
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 3 698 658	$ 2 969 252
Standby letters of credit	76 812	54 500

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation holds no collateral supporting those commitments.

The Corporation has cash accounts in other commercial banks. The amount on deposit at two of these banks at December 31, 1995 exceeded the insurance limits of the Federal Deposit Insurance Corporation by approximately $274,000.

NOTE 14. DEFINED CONTRIBUTION RETIREMENT PLAN

The Corporation has a defined contribution retirement plan under Code Section 401(k) of the Internal Revenue Service covering employees who have completed six months of service and who are at least 21 years of age. Contributions made to the plan for the year ended December 31, 1995 was $9,601. No contributions were made for the years ended December 31, 1994 and 1993.

NOTE 15. WRITTEN AGREEMENT

On January 28, 1992, a written agreement was entered into by the Board of Directors of the Bank with the Federal Reserve Bank of Richmond and the Bureau of Financial Institutions. The written agreement was terminated effective November 23, 1994.

NOTE 16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

CASH AND SHORT-TERM INVESTMENTS

For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

SECURITIES

For securities held for investment purposes, fair values are based on quoted market prices or dealer quotes.

LOAN RECEIVABLES

For certain homogeneous categories of loans, such as some residential mortgages, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the

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current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

DEPOSIT LIABILITIES

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The fair value of commitments to extend credit is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The fair value of stand-by letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

At December 31, 1995, the carrying amounts and fair values of loan commitments and stand-by letters of credit were immaterial.

The estimated fair values of the Corporation's financial instruments are as follows:

<TABLE>
<CAPTION>

	1995	
	CARRYING AMOUNT	FAIR VALUE
	(THOUSANDS)	
Financial assets:		
<S> <C>		
Cash and short-term investments	$ 3 857	$ 3 857
Securities	1 699	1 708
Loans	29 167	29 716
Less: allowance for loan losses	393	- -
Total financial assets	$ 34 330	$ 35 281
Financial liabilities:		
Deposits	$ 32 622	$ 33 136
Long-term debt	617	634
Total financial liabilities	$ 33 239	$ 33 770

</TABLE>

NOTE 17. NEW ACCOUNTING PRONOUNCEMENTS

FASB No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," establishes standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. This Statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Statement is effective for fiscal years beginning after December 15, 1995. The Statement is not expected to have a material impact on the Corporation.

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FASB No. 122, "Accounting for Mortgage Servicing Rights," amends FASB No. 65, "Accounting for Certain Mortgage Banking Activities," to require that a mortgage banking enterprise recognize as separate assets rights to service mortgage loans for others, however those servicing rights are acquired. A mortgage banking enterprise that acquires mortgage servicing rights through either the purchase or origination of mortgage loans and sells or securitizes those loans with servicing rights retained should allocate the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values if it is practicable to estimate those fair values. If it is not practicable to estimate the fair values of the mortgage servicing rights and the mortgage loans (without the mortgage servicing rights), the entire cost of purchasing or originating the loans should be allocated to the mortgage loans (without the mortgage servicing rights) and no cost should be allocated to the mortgage servicing rights. The Statement is effective for transactions in fiscal years beginning after December 15, 1995. The Statement is not expected to have a material impact on the Corporation.

FASB No. 123, "Accounting for Stock-Based Compensation," establishes financial accounting and reporting standards for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer's stock. Examples are stock purchase plans, stock options, restricted stock, and stock appreciation rights. This Statement also applies to transactions in which an entity issues its equity instruments to acquire goods or services from nonemployees. Those transactions must be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

This Statement defines a fair value based method of accounting for an employee stock option or similar equity instrument and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." The fair value based method is preferable to the Opinion 25 method for purposes of justifying a change in accounting principle under APB Opinion 20, "Accounting Changes." Entities electing to remain with the accounting in Opinion 25 must make pro forma disclosures of net income and, if presented, earnings per share, as if the fair value based method of accounting defined in this Statement had been applied.

The Statement is effective for fiscal years beginning after December 15, 1995. The disclosures must include the pro forma effects of other awards granted in fiscal years beginning after December 31, 1994. The Statement is not expected to have a material impact on the Corporation.

NOTE 18. STOCK OPTIONS AND WARRANTS OUTSTANDING

On June 15, 1992 the Corporation issued one stock purchase warrant ("warrant") for each share of preferred stock purchased in a private offering. A total of 200,688 warrants were issued. Warrants were immediately transferable and entitle the holder to purchase one share of common stock at a price of $5.00 per share until June 30, 1997. As of December 31, 1995 all 200,688 warrants were outstanding.

On April 13, 1992 the Corporation granted 500 stock options to the Corporation's chief executive officer pursuant to his employment agreement with the Corporation. The stock options are exercisable at $5.00 per share and expire on June 1, 1997. As of December 31, 1995 all 500 stock options were outstanding.

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NOTE 19. PARENT CORPORATION ONLY FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

MARATHON FINANCIAL CORPORATION
(PARENT CORPORATION ONLY)

BALANCE SHEETS
December 31, 1995 and 1994

	1995	1994
ASSETS		
Cash	$ 370	$ 370
Organization cost, at amortized costs	- -	5 064
Prepaid expenses	578	213
Investment in capital stock of subsidiary	2 681 486	2 238 322
Total assets	$ 2 682 434	$ 2 243 969
LIABILITIES, accounts payable	$ 4 684	$ - -
STOCKHOLDERS' EQUITY		
Preferred stock	$ - -	$ 1 003 440
Common stock	1 306 303	1 078 601
Capital surplus	5 109 908	4 199 100
Retained earnings (deficit)	(3 746 878)	(4 029 140)
Unrealized gain (loss) on securities available for sale	8 417	(8 032)
Total stockholders' equity	$ 2 677 750	$ 2 243 969
Total liabilities and stockholders' equity	$ 2 682 434	$ 2 243 969

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARATHON FINANCIAL CORPORATION
(PARENT CORPORATION ONLY)

STATEMENTS OF INCOME
Years Ended December 31, 1995, 1994 and 1993

<TABLE>
<CAPTION>

	1995	1994	1993
INCOME, miscellaneous	$ - -	$ - -	$ 3 250
EXPENSES:			
Amortization	$ 5 064	$ 12 072	$ 12 072
Other	1 110	849	776

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Total expenses	$ 6 174	$ 12 921	$ 12 848
(Loss) before undistributed income of subsidiaries	$ (6 174)	$ (12 921)	$ (9 598)
Undistributed income of subsidiary	$ 426 715	$ 331 397	$ 90 117
Net income	$ 420 541	$ 318 476	$ 80 519

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARATHON FINANCIAL CORPORATION
(PARENT CORPORATION ONLY)

STATEMENTS OF CASH FLOWS
Years Ended December 31, 1995, 1994 and 1993

<TABLE>
<CAPTION>

	1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES			
<S> <C>			
Net income	$ 420 541	$ 318 476	$ 80 519
Adjustments to reconcile net income to net cash (used in) operating activities:			
Amortization	5 064	12 071	12 072
Undistributed (income) of subsidiary	(426 715)	(331 397)	(90 117)
(Increase) in prepaid expenses	(365)	- -	(71)
Increase (decrease) in accounts payable, subsidiary company	1 475	- -	(3 250)
Net cash (used in) operating activities	$ - -	$ (850)	$ (847)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of common stock	$ - -	$ - -	$ 355 995
Purchase of stock from subsidiary	- -	- -	(355 998)
Net cash (used in) financing activities	$ - -	$ - -	$ (3)
(Decrease) in cash and cash equivalents	$ - -	$ (850)	$ (850)
CASH AND CASH EQUIVALENTS			
Beginning	370	1 220	2 070
Ending	$ 370	$ 370	$ 1 220
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Issuance of common stock	$ 138 279	$ 50 185	$ 25 150

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Unrealized gain (loss) on securities available for sale	$ 16 449	$ (8 032)	$ - -
Conversion of preferred stock to common stock	$ 1 003 440	$ - -	$ - -

</TABLE>

MARATHON FINANCIAL CORPORATION

Consolidated Balance Sheet
(Unaudited)

June 30, 1996

<TABLE>
<CAPTION>

Assets	
Cash and due from banks	$ 3 110 122
Securities (fair value: $1,692,099) (Note 2)	1 691 345
Federal funds sold	3 148 000
Loans, net (Notes 3 and 4)	31 596 179
Bank premises and equipment, net (Notes 5 and 9)	1 327 924
Accrued interest receivable	199 174
Other real estate	236 123
Other assets	301 870
	$ 41 610 737
Liabilities and Stockholders' Equity	
Liabilities	
Deposits:	
Noninterest bearing	$ 6 267 152
Interest bearing	31 598 997
Total deposits (Note 7)	$ 37 866 149
Interest expense payable	73 100
Accounts payable and accrued expenses	117 873
Mortgage payable	495 377
Capital lease payable (Note 9)	95 278
Commitments and contingent liabilities (Notes 10 and 13)	- -
Total liabilities	$ 38 647 777
Stockholders' Equity	
Preferred stock, Series A, 5% noncumulative, no par value; 1,000,000 shares authorized; no shares issued and outstanding	$ - -
Common stock, $1 par value; 20,000,000 shares authorized; 1,306,303 shares issued and outstanding	1 306 303
Capital surplus	5 109 908
Retained earnings (deficit)	(3 443 316)
Unrealized (loss) on securities available for sale	(9 935)
Total stockholders' equity	$ 2 962 960
	$ 41 610 737

</TABLE>

See Notes to Consolidated Financial Statements.

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MARATHON FINANCIAL CORPORATION

Consolidated Statements of Income
(Unaudited)

For the Six Months Ended June 30, 1996 and 1995

<TABLE>
<CAPTION>

<S>	<C> 1996	1995
Interest income:		
Interest and fees on loans	$ 1 696 282	$ 1 283 690
Interest on investment securities:		
Taxable	15 905	19 272
Nontaxable	8 337	7 500
Interest and dividends on securities available for sale:		
Taxable	21 239	9 080
Dividends	4 187	6 833
Interest on federal funds sold	32 403	16 448
Total interest income	$ 1 778 353	$ 1 342 823
Interest expense:		
Interest on deposits (Note 7)	$ 717 718	$ 541 037
Interest on mortgage payable	18 835	19 683
Interest on capital lease obligation	3 712	3 495
Interest on federal funds purchased	414	1 474
Total interest expense	$ 740 679	$ 565 689
Net interest income	$ 1 037 674	$ 777 134
Provision for loan losses (Note 4)	72 500	16 000
Net interest income after provision for loan losses	$ 965 174	$ 761 134
Other income:		
Service charges on deposit accounts	$ 149 003	$ 75 799
Commissions and fees	35 409	20 028
Other	9 450	4 951
Total other income	$ 193 862	$ 100 778

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION
Consolidated Statements of Income
(Unaudited)
(Continued)
For the Six Months Ended June 30, 1996 and 1995

<TABLE>
<CAPTION>

<S>	<C> 1996	1995
Other expenses:		
Salaries and employee benefits	$ 408 531	$ 324 801
Net occupancy expense of premises	65 756	54 564
Furniture and equipment	56 186	39 053
Other (Note 12)	320 935	266 801
Total other expenses	$ 851 408	$ 685 219

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	1996	1995
Income before income taxes	$ 307 628	$ 176 693
Provision for income taxes (Note 8)	4 066	- -
Net income	$ 303 562	$ 176 693
Earnings per common and equivalent share (Note 1)	$ .23	$ .16

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)
For the Six Months Ended June 30, 1996 and 1995

<TABLE>
<CAPTION>

<S> <C>	Capital Stock Preferred	Capital Stock Common	Capital Surplus	Retained Earnings (Deficit)	Unrealized Gain (Loss) on Securities Available for Sale	Total Stockholders' Equity
Balance, December 31, 1994	$ 1 003 440	$ 1 078 601	$4 199 100	$(4 029 140)	$ (8 032)	$ 2 243 969
Net income - 1995	- -	- -	- -	176 693	- -	176 693
Unrealized gain (loss) on securities available for sale	- -	- -	- -	- -	12 899	12 899
Balance, June 30, 1995	$ 1 003 440	$ 1 078 601	$4 199 100	$(3 852 447)	$ 4 867	$ 2 433 561
Balance, December 31, 1995	$ - -	$ 1 306 303	$5 109 908	$(3 746 878)	$ 8 417	$ 2 677 750
Net income - 1996	- -	- -	- -	303 562	- -	303 562
Unrealized gain (loss) on securities available for sale	- -	- -	- -	- -	(18 352)	(18 352)
Balance, June 30, 1996	$ - -	$ 1 306 303	$5 109 908	$(3 443 316)	$ (9 935)	$ 2 962 960

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Cash Flows
(Unaudited)
For the Six Months Ended June 30, 1996 and 1995

<TABLE>
<CAPTION>

<S> <C>	1996	1995
Cash Flows from Operating Activities		
Net income	$ 303 562	$ 176 693

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Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	5 451	10 576
Depreciation	56 820	48 223
Provision for loan losses	72 500	16 000
Accretion of securities discounts, net	(1 228)	(1 071)
Changes in assets and liabilities:		
(Increase) in other assets	(251 322)	(71 083)
(Increase) decrease in accrued interest receivable	(40 108)	2 167
Increase in accounts payable and accrued expenses	27 862	47 758
Increase (decrease) in interest expense payable	12 949	(72 536)
Net cash provided by operating activities	$ 186 486	$ 156 727
Cash Flows from Investing Activities		
Proceeds from maturities, calls and principal payments of investments securities	$ 559 340	$ 2 300
Proceeds from maturities and principal payments of securities available for sale	204 087	11 004
Purchase of investment securities	(299 221)	- -
Purchase of securities available for sale	(473 203)	(15 900)
Net (increase) in loans	(2 894 659)	(4 003 977)
Purchase of equipment	(96 281)	(50 592)
Net cash (used in) investing activities	$ (2 999 937)	$ (4 057 165)
Cash Flows from Financing Activities		
Net increase in demand deposits, NOW accounts and savings accounts	$ 1 055 295	$ 589 354
Net increase in certificates of deposit	4 188 690	3 851 348
Cash paid in lieu of fractional shares	(3 209)	- -
Principal payments on capital lease obligations	(14 322)	(11 037)
Principal payments on mortgage payable	(11 757)	(10 909)
Net cash provided by financing activities	$ 5 214 697	$ 4 418 756

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Cash Flows
(Unaudited)
(Continued)
For the Six Months Ended June 30, 1996 and 1995

<TABLE>
<CAPTION>

<S> <C>	1996	1995
Increase in cash and cash equivalents	$ 2 401 246	$ 518 318
Cash and Cash Equivalents		
Beginning	3 856 876	2 065 496
Ending	$ 6 258 122	$ 2 583 814
Supplemental Disclosures of Cash Flow Information, cash payments for interest	$ 727 730	$ 638 225
Supplemental Schedule of Noncash Investing and Financing Activities		
Equipment acquired under capital lease obligations	$ - -	$ 21 395
Unrealized gain (loss) on securities available for sale	$ (18 352)	$ 12 899

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</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Nature of Banking Activities and Significant Accounting Policies

Marathon Financial Corporation and Subsidiary, The Marathon Bank, (the Corporation) grant commercial, financial, agricultural, residential and consumer loans to customers in Virginia. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers.

The accounting and reporting policies of the Corporation conform to generally accepted accounting principles and to general practices within the banking industry. The following is a summary of the more significant policies.

Principles of Consolidation

The consolidated financial statements of the Marathon Financial Corporation and its Subsidiary, include the accounts of all companies. All material intercompany balances and transactions have been eliminated.

Securities

Securities are classified in three categories and accounted for as follows:

a. Securities Held to Maturity

Securities classified as held to maturity are those debt securities the Corporation has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the interest method over their contractual lives.

b. Securities Available for Sale

Securities classified as available for sale are those debt and equity securities that the Corporation intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Corporation's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains or losses are reported as increases or decreases in stockholders' equity. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings.

c. Trading Securities

Trading securities, which are generally held for the short term in anticipation of market gains, are carried at fair value. Realized and unrealized gains and losses on trading account assets are included in interest income on trading account securities. The Corporation had no trading securities

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at June 30, 1996 and 1995.

Derivative Financial Instruments

FASB No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments" requires various disclosures for derivative financial instruments which are futures, forwards, swaps, or option contracts, or other financial instruments with similar characteristics. The Corporation does not have any derivative financial instruments as defined under this statement.

Loans

Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Unearned discount on installment loans is recognized as income over the terms of the loans by the interest method. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Loans are charged off when management believes that the collectibility of the principal is unlikely. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful.

On January 1, 1995, the Corporation adopted FASB No. 114, "Accounting by Creditors for Impairment of a Loan." This statement has been amended by FASB No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." Statement 114, as amended, requires that the impairment of loans that have been separately identified for evaluation is to be measured based on the present value of expected future cash flows or, alternatively, the observable market price of the loans or the fair value of the collateral. However, for those loans that are collateral dependent (that is, if repayment of those loans is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable, the measure of impairment of those loans is to be based on the fair value of the collateral. Statement 114, as amended, also requires certain disclosures about investments in impaired loans and the allowance for credit losses and interest income recognized on loans. The Corporation had no loans subject to FASB 114 at June 30, 1996 and 1995.

Loans are placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term.

Bank Premises and Equipment

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Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily on the straight-line and declining-balance methods. Lease amortization is included in depreciation expense.

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Classifications of Amortization on Assets Acquired Under Capital Leases

The amortization expense on assets acquired under capital leases is included with the depreciation expense.

Earnings Per Share

Earnings per share of common stock are based on the weighted average number of common shares outstanding during each year after giving retroactive effect to the stock dividend declared in 1995.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carry-forwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Organization Costs

The Marathon Financial Corporation was organized under the laws of the State of Virginia as a bank holding company on October 2, 1990. Certain expenses incurred prior to this date were deferred and were amortized using the straight-line method over a 60-month period.

Loan Fees and Costs

Loan origination and commitment fees and direct loan origination costs are being recognized as collected and incurred. The use of this method of recognition does not produce results that are materially different from results which would have been produced if such costs and fees were deferred and amortized as an adjustment of the loan yield over the life of the related loan.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting

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period. Actual results could differ from those estimates.

Note 2. Securities

The amortized cost and fair value of the securities available for sale as of June 30, 1996, is as follows:

<TABLE>
<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		1996		
Obligations of U.S. government corporations and agencies	$ 595 744	$ 1 862	$ (8 545)	$ 589 061
Mortgage-backed securities	137 134	1 558	(4 810)	133 882
Other	302 850	- -	- -	302 850
	$ 1 035 728	$ 3 420	$ (13 355)	$ 1 025 793

</TABLE>

The amortized cost and fair value of the securities available for sale as of June 30, 1996, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because mortgages underlying the mortgage-backed securities may be called or prepaid without any penalties.

<TABLE>
<CAPTION>

	Amortized Cost	Fair Value
Due after one year through five years	$ 595 744	$ 589 061
Mortgage-backed securities	137 134	133 882
Other	302 850	302 850
	$ 1 035 728	$ 1 025 793

</TABLE>

The amortized cost and fair value of securities being held to maturity as of June 30, 1996 is as follows:

<TABLE>
<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		1996		
U.S. Treasuries and obligations of U.S. government corporations and agencies	$ 297 980	$ - -	$ (4 713)	$ 293 267
Obligations of state and political subdivisions	251 324	6 330	(1 154)	256 500
Corporate securities	99 885	115	- -	100 000
Mortgage-backed securities	16 363	176	- -	16 539
	$ 665 552	$ 6 621	$ (5 867)	$ 666 306

</TABLE>

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The amortized cost and fair value of the securities being held to maturity as of June 30, 1996, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the corporate securities and mortgages underlying the mortgage-backed securities may be called or prepaid without any penalties.

<TABLE>
<CAPTION>

	Amortized Cost	Fair Value
Due after one year through five years	$ 297 980	$ 293 267
Due after five years through ten years	251 324	256 500
Corporate securities	99 885	100 000
Mortgage-backed securities	16 363	16 539
	$ 665 552	$ 666 306

</TABLE>

Proceeds from maturities, calls and principal payments of securities available for sale during 1996 and 1995 were $204,087 and $11,004. There were no realized gains or realized losses recognized on these transactions.

Proceeds from maturities, calls and principal payments of securities being held to maturity during 1996 and 1995 were $559,340 and $2,300. There were no realized gains or realized losses recognized on these transactions.

Securities having a book value of $547,589 and $695,655 at June 30, 1996 and 1995 were pledged to secure public deposits and for other purposes required by law.

Note 3. Loans and Related Party Transactions

The loan portfolio as of June 30, 1996, is composed of the following:

Commercial	$ 15 310 722
Real estate - mortgage	5 747 258
Real estate - construction	4 015 021
Installment loans to individuals	6 986 771
	$ 32 059 772
Less allowance for loan losses	463 593
	$ 31 596 179

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, executive officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. These persons and firms (exclusive of loans to any such person which in the aggregate did not exceed $60,000) were indebted to the Bank for loans totaling $1,459,760 at June 30, 1996. During 1996, total principal additions were $528,117 and total principal payments were $243,242.

Note 4. Allowance for Loan Losses

Changes in the allowance for loan losses are as follows:

	June 30, 1996	1995

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Balance, beginning	$ 393 139	$ 299 203
Provision for loan losses	72 500	16 000
Recoveries	4 265	2 050
Loan losses charged to the allowance	(6 311)	(7 411)
Balance, ending	$ 463 593	$ 309 842

Nonaccrual loans excluded from impaired loan disclosure under FASB 114 amounted to $63,819 at June 30, 1996. If interest on these loans had been accrued, such income would have approximated $2,518 for 1996.

Note 5. Bank Premises and Equipment, Net

Bank premises and equipment as of June 30, 1996 consists of the following:

Capital leases - computer	$ 151 047
Bank premises	1 222 881
Furniture and equipment	742 159
	$ 2 116 087
Less accumulated depreciation	788 163
	$ 1 327 924

Depreciation included in operating expense for 1996 and 1995 was $56,820 and $48,223, respectively.

Note 6. Organization Costs

Certain costs incurred by the Corporation prior to commencing operations on October 2, 1990, were capitalized and amortized over a 60-month life. These costs totaled $60,350.

Note 7. Deposits

Deposits outstanding at June 30, 1996 and 1995 and the related interest expense for the years then ended, are summarized as follows:

<TABLE>
<CAPTION>

	1996		1995	
	Amount	Expense	Amount	Expense
<S> <C>				
Noninterest bearing	$ 6 267 152	$ - -	$ 4 348 396	$ - -
Interest bearing:				
Interest checkin	$ 2 080 895	$ 30 098	$ 1 855 975	$ 21 523
Money market accounts	3 140 621	56 858	2 536 310	38 187
Regular savings	5 057 468	79 657	4 844 164	79 153
Certificates of deposit:				
Less than $100,000	16 971 439	445 950	12 457 447	333 088
$100,000 and more	4 348 574	105 155	3 002 626	69 086
Total interest bearing	$31 598 997	$ 717 718	$24 696 522	$ 541 037
Total deposits	$37 866 149	$ 717 718	$29 044 918	$ 541 037

</TABLE>

Note 8. Income Taxes

Net deferred tax assets consist of the following components as of June 30, 1996:

Deferred tax assets:	
Net operating loss carryforward	$1 163 263

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Writedown of other real estate	14 478
Less valuation allowance	(1 103 668)
	$ 74 073
Deferred tax liabilities:	
Allowance for loan losses	$ 74 073
	$ - -

The provision for income taxes charged to operations for the years ended June 30, 1996 and 1995, consists of the following:

	1996	1995
Current tax expense	$ 4 066	$ - -
Deferred tax expense	103 152	59 425
Benefit of net operating loss	(103 152)	(59 425)
	$ 4 066	$ - -

Notes to Consolidated Financial Statements
(Unaudited)

The current tax expense incurred in 1996 is related to the alternative minimum tax calculated for the Corporation.

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the six months ended June 30, 1996 and 1995, due to the following:

	1996	1995
Computed "expected" tax expense	$ 104 594	$ 60 076
Increase (decrease) in income taxes resulting from:		
Reduction of valuation allowance	(103 152)	(59 425)
Tax exempt interest income	(1 157)	(1 611)
Other	3 781	960
	$ 4 066	$ - -

Under the provisions of the Internal Revenue Code, the Corporation has available approximately $3,421,362 of net operating loss carryforwards which can be offset against future taxable income. The carryforwards expire December 31, 2006. The full realization of the tax benefits associated with the carryforwards depends predominately upon the recognition of ordinary income during the carryforward period.

The loss carryforward at June 30, 1996, for financial reporting purposes is approximately $3,225,670. The differences between the loss carryforward for financial reporting and income tax purposes results principally from timing differences in recognizing start-up costs and the provision for loan losses. No deferred taxes are recorded on these timing differences due to the net operating loss carryforward position of the Corporation.

Note 9. Leases

Capital Lease

During the year ended December 31, 1994, the Corporation entered into a lease agreement on computer equipment and software. Additional equipment and software was added to the lease during 1995 in the amount of $21,395. The balance of the liability under capital leases at June 30, 1996 in the amount of $95,278 represents the present value of the balance due in future years for lease rentals discounted at 7%. The liability is payable in

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quarterly installments of $9,017 for principal and interest to June 1, 1999. Since the term of the lease is approximately the same as the estimated useful life of the assets, and the present value of the future minimum lease payments at the beginning of the lease approximated the fair value of the leased assets at that date, the leases are considered to be capital leases and have been so recorded. The lease also requires additional maintenance payments of $4,853 per quarter.

The following is a schedule by years of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 1996:

For the Year Ended December 31:	
1996	$ 27 740
1997	55 480
1998	55 480
1999	25 821
Total minimum lease payments	$ 164 521
Less estimated executory costs (such as maintenance) included in the total minimum lease payments	58 236
Net minimum lease payments	$ 106 285
Less the amount representing interest	11 007
Present value of net minimum lease payments	$ 95 278

Lease Commitments and Total Rental Expense

During the year ended December 31, 1994, the Corporation entered into a five-year operating lease for the rental of a branch location. The lease expires on September 30, 1999 and has two five-year renewal options. The lease provides that the Corporation pay all property taxes, insurance and maintenance plus an annual rental of $12,000 for the initial lease period commencing on April 1, 1995. The total minimum lease commitment at June 30, 1996 under this lease is $45,000 which is due as follows:

For the Year Ended December 31:	
1996	$ 6 000
1997	12 000
1998	12 000
1999	12 000
2000	3 000
	$ 45 000

There was $6,000 in rental expense resulting from this lease included in the consolidated statements of income for the six months ended June 30, 1996.

Fixed Equipment on Land Leased with Related Parties

As of June 30, 1996 the Corporation has invested $237,365 in the construction of a new building on this site. The Corporation has agreed to finance the construction of the building with the understanding that the lessor will reimburse the Corporation for all costs and will lease the building to the Corporation for a rental expense to be determined based on the total cost of the finished building and a land value of $150,000. The project was completed on June 30, 1996.

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Note 10. Commitments and Contingent Liabilities

In the normal course of business, there are other outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. See Note 13 with respect to financial instruments with off-balance-sheet risk.

As members of the Federal Reserve System, the Corporation is required to maintain certain average reserve balances. For the final weekly reporting period in the year ended June 30, 1996 this requirement was $72,000.

Note 11. Dividend Restrictions

Federal and state regulations limit the amount of dividends which the Corporation can pay without obtaining prior approval and, additionally, federal regulations require that the Corporation maintain minimum capital requirements. As of June 30, 1996, the Corporation was required to obtain prior approval on any dividend declared.

The Corporation did obtain approval from the State Corporation Commission to pay a stock dividend and on December 19, 1995, the Board of Directors declared a stock dividend equal to 15% of net income, payable February 8, 1996, to stockholders of record December 19, 1995. This dividend has been reflected in the accompanying financial statements.

Transfers of funds from the banking subsidiary to the parent corporation in the form of loans, advances and cash dividends are restricted by federal and state regulatory authorities. As of June 30, 1996, no unrestricted funds could be transferred from the banking subsidiary to the parent corporation, without prior regulatory approval.

Notes to Consolidated Financial Statements
(Unaudited)

Note 12. Other Expenses

The principal components of "Other expenses" in the Consolidated Statements of Income are:

	1996	1995
FDIC assessment	$ 1 500	$ 27 490
Marketing	32 531	32 100
Stationery and supplies	23 894	24 377
Professional fees	25 069	26 258
Postage	24 924	12 640
Other (includes no items in excess of 1% of total revenue)	213 017	143 936
	$ 320 935	$ 266 801

Note 13. Financial Instruments With Off-Balance-Sheet Risk

The Corporation is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contract or notional amount of the Corporation's exposure to off-balance-sheet risk as of June 30, 1996 is as follows:

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Financial instruments whose contract amounts represent credit risk:	
Commitments to extend credit	$ 4 684 904
Standby letters of credit	78 000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation holds no collateral supporting those commitments.

The Corporation has cash accounts in other commercial banks. The amount on deposit at two of these banks at June 30, 1996 exceeded the insurance limits of the Federal Deposit Insurance Corporation by approximately $797,183.

Note 14. Defined Contribution Retirement Plan

The Corporation has a defined contribution retirement plan under Code Section 401(k) of the Internal Revenue Service covering employees who have completed six months of service and who are at least 21 years of age. No contributions were made to the plan for the six months ended June 30, 1996 and 1995.

Note 15. Stock Options and Warrants Outstanding

On June 15, 1992 the Corporation issued one stock purchase warrant ("warrant") for each share of preferred stock purchased in a private offering. A total of 200,688 warrants were issued. Warrants were immediately transferable and entitle the holder to purchase one share of common stock at a price of $5.00 per share until June 30, 1997. As of June 30, 1996 all 200,688 warrants were outstanding.

On April 13, 1992 the Corporation granted 500 stock options to the Corporation's chief executive officer pursuant to his employment agreement with the Corporation. The stock options are exercisable at $5.00 per share and expire on June 1, 1997. As of June 30, 1996 all 500 stock options were outstanding.

Note 16. Parent Corporation Only Financial Statements

MARATHON FINANCIAL CORPORATION
(Parent Corporation Only)

Balance Sheet
(Unaudited)

June 30, 1996

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Assets	
Cash	$ 732
Prepaid expenses	690
Investment in capital stock of subsidiary	2 961 538
Total assets	$ 2 962 960
Liabilities, accounts payable	$ - -
Stockholders' Equity	
Preferred stock	$ - -
Common stock	1 306 303
Capital surplus	5 109 908
Retained earnings (deficit)	(3 443 316)
Unrealized (loss) on securities available for sale	(9 935)
Total stockholders' equity	$ 2 962 960
Total liabilities and stockholders' equity	$ 2 962 960

Notes to Consolidated Financial Statements
(Unaudited)

MARATHON FINANCIAL CORPORATION
(Parent Corporation Only)

Statements of Income
(Unaudited)
For the Six Months Ended June 30, 1996 and 1995

<TABLE>
<CAPTION>

<S> <C>

	1996	1995
Income, dividends from subsidiary	$ 6 000	$ - -
Expenses:		
Amortization	$ - -	$ 5 064
Other	841	425
Total expenses	$ 841	$ 5 489
Income (loss) before undistributed income of subsidiaries	$ 5 159	$ (5 489)
Undistributed income of subsidiary	298 403	182 182
Net income	$ 303 562	$ 176 693

</TABLE>

Notes to Consolidated Financial Statements
(Unaudited)

MARATHON FINANCIAL CORPORATION
(Parent Corporation Only)

Statements of Cash Flows

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(Unaudited)

For the Six Months Ended June 30, 1996 and 1995

	1996	1995
Cash Flows from Operating Activities		
Net income	$ 303 562	$ 176 693
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	- -	5 064
Undistributed (income) of subsidiary	(298 403)	(182 182)
(Increase) decrease in prepaid expenses	(113)	425
(Decrease) in accounts payable, subsidiary company	(1 475)	- -
Net cash provided by operating activities	$ 3 571	$ - -
Cash Flows from Financing Activities, cash paid in lieu of financial shares	$ (3 209)	$ - -
Increase in cash and cash equivalents	$ 362	$ - -
Cash and Cash Equivalents		
Beginning	370	370
Ending	$ 732	$ 370

No person has been authorized in connection with this offering to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by the Corporation or the Underwriter. This Prospectus does not constitute an offer of any securities other than the Common Stock to which it relates or an offer to sell, or a solicitation of an offer to buy, in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation since the date hereof or that the information contained or incorporated by reference herein is correct as of any time subsequent to its date.

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[LOGO]

500,000 Shares

Common Stock

PROSPECTUS

McKinnon & Company, Inc.

, 1996

PROSPECTUS

100,000 Shares

MARATHON FINANCIAL CORPORATION

Common Stock

Marathon Financial Corporation, a Virginia corporation (the "Corporation") is offering 100,000 shares of its Common Stock (the "Subscription Shares") to its stockholders in a subscription offering (the "Subscription Offering"). There is no established public trading market for the Corporation's Common Stock, which is not actively traded.

The Subscription Shares will be offered initially to the Corporation's stockholders of record at the close of business on June 24, 1996 at $5.00 per share on the basis of one Subscription Share for each 12 shares of Common Stock then beneficially owned. See "Offering to Stockholders" and "Underwriting" for information regarding the factors considered in determining the offering price. To the extent that Subscription Shares are available, stockholders will be permitted to oversubscribe. See "Offering to Stockholders." Subscriptions must be received by the Corporation by 5:00 p.m. Virginia time on September 24, 1996.

Any unsubscribed Subscription Shares, plus an additional 400,000 shares of the Corporation's Common Stock (collectively the "Public Offering Shares") (the Subscription Shares and the Public Offering Shares collectively the "Shares"), will be offered in a public offering (the "Public Offering"; the Subscription Offering and the Public Offering collectively the "Offerings") on a best efforts basis by McKinnon & Company, Inc. as selling agent for the Corporation (the "Underwriter"), at a price currently anticipated to be between $4.75 and $5.75 per Public Offering Share. If the Public Offering price exceeds $5.00 per Share, persons who subscribed for Subscription Shares will pay no more than $5.00 per Share. If the Public Offering price is less than $5.00 per Share, subscribers in the Subscription Offering will receive a rebate without interest immediately following the closing of the Offerings for the difference between $5.00 and the Public Offering price. The Corporation reserves the right to increase the total number of Shares offered in the Public Offering by not more than 75,000 Shares.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, THE FEDERAL RESERVE BANK, THE VIRGINIA STATE CORPORATION COMMISSION OR ANY OTHER STATE OR FEDERAL AGENCY, NOR HAS ANY STATE OR FEDERAL AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE SECURITIES OFFERED HEREBY ARE NOT SAVINGS ACCOUNTS OR SAVINGS DEPOSITS, AND THEY ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR BY ANY OTHER STATE OR FEDERAL AGENCY.

Subscription Proceeds to

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	Offering Price(1)	Corporation (2)(3)
Per Share..................	$5.00	$5.00
Total (3)..................	$500,000	$500,000

(1) The Corporation has agreed to indemnify the Underwriter against certain civil liabilities, including liabilities under the Securities Act of 1933.

(2) Before deducting expenses payable by the Corporation estimated at approximately $25,000, including $10,000 paid to the Underwriter as a financial advisory/standby fee.

(3) Assumes the sale of all 100,000 Subscription Shares offered to the stockholders at $5.00 per Share.

Subscribers' funds will be held by the Corporation in a noninterest bearing escrow account until the closing of the Offerings, which are not subject to the sale of any minimum number of Shares. It is anticipated that delivery of the Subscription Shares will be made on or about October 3, 1996.

The date of this Prospectus is August 26, 1996.

[MAP of Northern Virginia with branch locations indicated]

AVAILABLE INFORMATION

The Corporation has filed with the Securities and Exchange Commission (the "Commission") a registration statement (the "Registration Statement") under the Securities Act of 1933, as amended, with respect to the Common Stock offered hereby. This Prospectus, which constitutes a part of the Registration Statement, does not contain all of the information set forth in the Registration Statement, certain items of which are omitted as permitted by the rules and regulations of the Commission. Statements made in this Prospectus as to the contents of any agreement or other document referred to herein are not necessarily complete, and reference is made to the copy of such agreement or other document filed as an exhibit or schedule to the Registration Statement and each such statement shall be deemed qualified in its entirety by such reference. For further information, reference is made to the Registration Statement and to the exhibits and schedules filed therewith, which are available for inspection without charge at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the material containing this information may be obtained from the Commission upon payment of the prescribed fees.

The Corporation is subject to the periodic reporting and other information requirements of the Securities Exchange Act of 1934, as amended. Such reports may be inspected at the public reference facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices located at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661, and 7 World Trade Center, 13th Floor, New York, New York 10048. Copies of such material may be obtained by mail from the Public Reference Branch of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.

REPORTS TO STOCKHOLDERS

The Corporation will furnish annual reports to its stockholders containing audited financials of the Corporation and any subsidiaries on a consolidated basis, as well as quarterly reports containing unaudited financial information.

PROSPECTUS SUMMARY

The following summary does not purport to be complete and is qualified in its entirety by the more detailed information and financial

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statements, including the notes thereto, included elsewhere in this Prospectus.

Marathon Financial Corporation

Marathon Financial Corporation (the "Corporation") is a bank holding company headquartered in Frederick County, Virginia. Its banking subsidiary, The Marathon Bank (the "Bank"), began operations in December 1988 in Frederick County, and opened additional branches in Front Royal, Virginia, in 1993 and in Winchester, Virginia in 1995. At June 30, 1996, the Corporation had $41.611 million in assets, $31.596 million in net loans, $37.866 million in deposits, $2.963 million in stockholders' equity, and an operating tax loss carryforward of $3.226 million. During the year ended December 31, 1995, the Corporation's net income grew 32.39% to $421 thousand from $318 thousand in 1994. For the six months ended June 30, 1996, the Corporation's net income increased 71.75% to $304 thousand from $177 thousand for the comparable period in 1995, while total assets increased 28.96% to $41.611 million at June 30, 1996 over the June 30, 1995 level. The annualized return on average assets and average equity for the six months ended June 30, 1996 were 1.61% and 21.55%, respectively. Improvements in the Bank's earnings and size have been consistent since the employment by the Corporation of the current chief executive officer in 1992.

The Corporation experienced significant losses in its first four years of the Bank's operation, including net losses of $529 thousand in 1989, $381 thousand in 1990, $2.748 million in 1991, and $474 thousand in 1992. In late 1991, two significant loans with overdrafts and unusual extensions of credit aggregating approximately $2.1 million were written off, without any subsequent recovery. At December 31, 1991 the Corporation had a negative net worth of $828 thousand, total assets of $15.883 million and a ratio of non-performing assets and past due loans to total loans of 5.85%, which ratio peaked at 10.39% at June 30, 1992. The Corporation was placed under a Memorandum of Understanding by regulatory authorities in 1992 and the Board of Directors of the Corporation accepted the resignations of the president, the chief lending officer and the treasurer of the Corporation in February, April and May 1992, respectively.

In April 1992, the Corporation's Board of Directors recruited Donald L. Unger, a local, well respected banker, to take over as chief executive officer of the Bank. Mr. Unger, with over 25 years of senior banking experience in the Winchester and surrounding markets, had served as chief executive officer and a director of The Peoples Bank of Front Royal, Front Royal, Virginia ("The Peoples Bank"). Under Mr. Unger's leadership, the annual net income of The Peoples Bank steadily increased from approximately $75 thousand in 1980 to $801 thousand in 1991 while, during the same period, assets increased from approximately $10 million to $60 million. Over the 1981-1991 period, the average annual return on equity and average annual return on assets of The Peoples Bank were 17.40% and 1.59%, respectively. This period included the recession years of 1988-1991, when the average annual return on equity and average annual return on assets were 15.72% and 1.40%, respectively. The Peoples Bank was sold to a large statewide bank holding company in 1992.

Prior to hiring Mr. Unger, the Corporation's primary focus was on commercial lending, which was largely unsecured. Under new management, the Corporation's loan portfolio, deposit base and general operations were diversified with the goal of reducing the volatility of assets and liabilities, collateralizing the loan portfolio, and transforming the institution into a full service community bank. From December 31, 1991 to June 30, 1996 consumer installment loans increased 882.70% and loans secured by real estate increased 134.44%. The Corporation's loan portfolio stabilized, and at June 30, 1996 the loan mix consisted of 52.24% consumer installment and real property loans and 47.76% commercial loans, a significant portion of which commercial loans were secured by real estate, deposits and marketable securities. The Corporation also began to originate and sell loans in the secondary mortgage market in September 1993, and production and sale has steadily increased from $2.237 million in 1994, to $3.502 million in 1995, and $2.389 million during the first six months of 1996. The Bank emphasized diversifying its deposit base by increasing consumer and commercial deposits and eliminating brokered deposits, which prior to 1991 exceeded the Corporation's non-interest bearing deposits. Average non-interest bearing deposits increased from $909 thousand, representing 6.14% of the Corporation's total deposits at December 31, 1991, to $5.203 million, representing 15.21% of the Corporation's total deposits, at June 30, 1996. This shift substantially impacted the Corporation's cost of funds. As a result of this successful turnaround, the Memorandum of Understanding was terminated on November 23, 1994.

In the first three full years under Mr. Unger's leadership, the Corporation's net income steadily increased to $80 thousand in 1993, $318 thousand in 1994 and $421 thousand in 1995. For the first six months of 1996, net income was $304 thousand. These figures include expenses associated with the opening of two additional branches -

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August 1993 in Front Royal and February 1995 in Winchester. Total assets increased from $15.883 million at December 31, 1991 to $41.611 million at June 30, 1996. Non-performing assets to period end loans and other real estate owned declined from 2.94% at December 31, 1991 to 0.93% at June 30, 1996. Additionally, the Corporation has signed a contract to sell its largest piece of other real estate owned to an unrelated purchaser for cash, which is anticipated to close in October 1996. If the transaction is consummated, the Corporation will reduce its portfolio of other real estate owned by more than 90%. The net interest margin increased from 3.67% in 1991 to 6.04% in 1994, was 5.81% in 1995, and for the first six months of 1996 on an annualized basis was 6.14%. Over the same period, the return on average equity increased from negative 175.2% at December 31, 1991 to positive 21.55% on an annualized basis in the first six months of 1996. The return on average assets increased from negative 16.40% to positive 1.61%; the ratio of nonperforming assets to period end loans and other real estate owned decreased from 2.94% to .93%; while net chargeoffs to average loans declined from 16.91% to .01%. The Corporation has significantly more interest rate sensitive assets than liabilities adjustable within 90 days, and, therefore, the net interest margin would be expected to benefit from an increase in interest rates during this 90-day period.

As part of the recapitalization of the Corporation in 1992, the Corporation, in private placements, issued two rounds of Common Stock at $5.00 per share, Convertible Preferred Stock convertible into Common Stock at $5.00 per share (which was mandatorily converted in July 1995) and warrants to purchase Common Stock at $5.00 per share. At June 30, 1996, 200,688 of such warrants were outstanding and exercisable through June 30, 1997.

The Corporation is the only independent community bank headquartered in the City of Winchester or Frederick County, Virginia. The Corporation's primary market is the Northern Shenandoah Valley, which includes Frederick County, where, based on total financial institution deposits at June 30, 1995, it was the fourth largest financial institution with approximately 11% of the market, Warren County, including the Town of Front Royal, where, based on total financial institution deposits at June 30, 1995, it was the ninth largest financial institution with approximately 4% of the market, and the City of Winchester, the largest market in the four county area of Frederick, Warren, Shenandoah and Clarke Counties. Winchester and Front Royal are located at or near the intersections of I-81 and I-66 on the western fringe of the greater Washington-Baltimore Metropolitan Statistical Area, the fourth largest market in the United States.

Seventeen Fortune 500 companies have major manufacturing facilities in the Northern Shenandoah Valley. In addition, Warren County is becoming a significant center, in the Mid-Atlantic region, for manufacturing and distribution due to its proximity to the Virginia Inland Port, a state sponsored facility to expedite truck and rail shipments to the Hampton Roads Port. Pen-Tab Inc. opened a manufacturing and distribution center in the first quarter of 1996 which employs over 270 persons. Toray, Inc. recently broke ground on a $120 million full service manufacturing plant which anticipates employing 120 persons in 1997 and over 500 persons by the year 2000. Major employers in the four county area include Valley Health Systems, Inc., National Fruit Products, Inc., Crown Cork and Seal, Automotive Industries Inc., Rubbermaid Commercial Products, General Electric, AT&T Communications, duPont, Inc. and O'Sullivan Corporation.

The Offering

<TABLE>

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Shares offered.......................	A total of 500,000 Shares, of which 100,000 (the "Subscription Shares") will be initially offered in a subscription offering (the "Subscription Offering") to the Corporation's stockholders of record on June 24, 1996 on the basis of one Share for each 12 shares of Common Stock then beneficially owned. The Shares not subscribed for in the Subscription Offering, together with 400,000 additional Shares (collectively, the "Public Offering Shares"; the Subscription Shares and the Public Offering Shares are sometimes collectively referred to herein as the "Shares"), will be offered in a public offering on a best efforts basis by the Underwriter as selling agent for the Corporation, at a price currently anticipated to be between $4.75 and $5.75 per Share. The Corporation reserves the right to increase the total number of Shares offered in the Public Offering by not more than 75,000 Shares. See "Offering to Stockholders" and "Underwriting."

</TABLE>

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Common Stock outstanding............	1,306,303 shares at June 30, 1996; 1,806,303 after completion of the Offerings, assuming the sale of all 500,000 Shares and excluding the 75,000 additional Shares that may be offered at the election of the Corporation.
Use of proceeds......................	To support future growth of the Corporation's assets, including the potential opening of new branches, and for general corporate purposes. See "Use of Proceeds."
Market area..........................	The Corporation's three banking offices, located in Frederick County, the Town of Front Royal and the City of Winchester, operate along the western fringe of Washington-Baltimore Metropolitan Statistical Area, the fourth largest market in the United States.
Proposed NASDAQ symbol...............	The Corporation has applied to have its Common Stock approved for listing on the NASDAQ SmallCap Market under the symbol "MFCV."
Dividends............................	The Corporation has never declared or paid cash dividends and does not anticipate doing so in the foreseeable future. See "Market Price and Dividend Data," "Business - Supervision and Regulation," and "Description of Capital Stock."
Risk Factors.........................	Prospective investors should carefully consider certain factors before purchasing any of the Shares offered in the Offerings. See "Investment Considerations."

</TABLE>

SUMMARY FINANCIAL DATA

The year-end income statement data, the year-end per share data, and the year-end balance sheet data regarding net income contained in the following summary financial data for the five years ended December 31, 1995 are derived from the audited historical consolidated financial statements of the Corporation. The financial data for the six months ended June 30, 1996 and 1995 are derived from unaudited consolidated financial statements. The summary financial data should be read in conjunction with the historical consolidated financial statements and the notes thereto of the Corporation included elsewhere in this Prospectus.

<TABLE>
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	Six months ended June 30,		Years ended December 31,				
	1996	1995	1995	1994	1993	1992	1991
			(Dollars in thousands, except per share data)				
<S> <C>							
Income Statement Data:							
Net interest income...................	$ 1,038	$ 777	$ 1,688	$ 1,402	$ 908	$ 593	$ 566
Provision for loan losses............	73	16	113	151	12	(88)	2,458
Noninterest income....................	194	101	281	242	93	111	180
Noninterest expense...................	855	685	1,435	1,175	909	1,266	1,036
Income tax expense....................	103	59	143	101	-	-	-
Benefit of net operating loss(1)......	(103)	(59)	(143)	(101)	-	-	-
Net income (loss).....................	$ 304	$ 177	$ 421	$ 318	$ 80	$ (474)	$ (2,748)
Per Share Data:							
Net income (loss).....................	$ .23	$ .16	$ .35	$ .30	$ .08	$ (.40)	$ (4.51)
Cash dividends........................	--	--	--	--	--	--	--
Book value at period end.............	2.27	1.90	2.05	1.75	1.52	1.25	(1.36)
Tangible book value at period end.....	2.27	1.90	2.05	1.75	1.52	1.25	(1.36)
Balance Sheet Data:							
Total assets..........................	$ 41,611	$ 32,266	$ 36,070	$ 27,682	$ 22,379	$ 16,111	$ 15,883
Loans, net............................	31,596	26,606	28,774	22,618	18,149	10,828	11,545
Securities............................	1,691	1,506	1,699	1,490	1,517	2,168	2,572
Deposits..............................	37,866	29,045	32,622	24,604	19,606	13,678	16,391
Stockholders' equity (deficit)........	2,963	2,434	2,678	2,244	1,934	1,497	(828)
Average shares outstanding(2).........	1,306	1,091	1,192	1,083	1,055	743	615

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Performance Ratios(3):							
Return on average assets.............	1.61%	1.18%	1.31%	1.23%	.42%	(3.10)%	(16.40)%
Return on average equity.............	21.55	15.13	16.96	15.28	4.51	(90.00)	(175.20)
Net interest margin(4)................	6.14	6.21	5.81	6.04	5.38	4.31	3.67
Efficiency(5).........................	69.40	78.02	72.88	71.47	90.81	179.83	138.87
Asset Quality Ratios:							
Allowance for loan losses to period end loans...........................	1.45%	1.15%	1.35%	1.31%	1.22%	1.78%	3.85%
Allowance for loan losses to nonaccrual loans.....................	725.00	107.27	873.33	111.11	1,184.21	0.00	130.51
Nonperforming assets to period end loans and other real estate owned(6)	0.93(7)	1.07	0.96	1.18	0.10	0.00	2.94
Net charge-offs (recoveries) to average loans.......................	.01	.04	.07	.37	(0.12)	1.63	16.91
Capital and Liquidity Ratios:							
Leverage..............................	7.88%	8.10%	8.32%	8.69%	9.99%	9.38%	(5.21)%
Risk based:							
Tier I capital......................	9.20	9.19	9.40	10.04	10.67	11.71	(5.45)
Total capital.......................	10.45	10.37	10.60	11.29	11.92	13.30	(3.33)
Average loans to average deposits.....	90.33%	92.07%	91.57%	91.79%	87.79%	77.70%	84.80%

</TABLE>

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(1) At June 30, 1996, the Corporation had available approximately $3.226 million of an operating tax loss carryforward which could be offset against future income.

(2) All periods have been restated to reflect the stock dividend declared in 1995.

(3) Annualized for the six months ended June 30, 1996 and 1995.

(4) Net interest margin is calculated as net interest income divided by average earning assets and represents the Corporation's net yield on its earning assets.

(5) Computed by dividing noninterest expense by the sum of net interest income and noninterest income, net of securities gains or losses.

(6) Nonperforming assets consist of nonaccrual loans and foreclosed properties.

(7) The Corporation signed a contract to sell its largest piece of other real estate owned to an unrelated purchaser for cash, which is anticipated to close in October 1996. If the transaction is consummated, the Corporation will reduce its portfolio of other real estate owned by more than 90%.

THE CORPORATION

Marathon Financial Corporation (the "Corporation") is a bank holding company headquartered in Frederick County, Virginia. Its banking subsidiary, The Marathon Bank (the "Bank"), began operations in December 1988 in Frederick County, and opened additional branches in Front Royal, Virginia, in 1993 and in Winchester, Virginia in 1995. At June 30, 1996, the Corporation had $41.611 million in assets, $31.596 million in net loans, $37.866 million in deposits, $2.963 million in stockholders' equity, and an operating tax loss carryforward of $3.226 million. During the year ended December 31, 1995, the Corporation's net income grew 32.39% to $421 thousand from $318 thousand in 1994. For the six months ended June 30, 1996, the Corporation's net income increased 71.75% to $304 thousand from $177 thousand for the comparable period in 1995, while total assets increased 28.96% to $41.611 million at June 30, 1996 over the June 30, 1995 level. The annualized return on average assets and average equity for the six months ended June 30, 1996 were 1.61% and 21.55%, respectively. Improvements in the Bank's earnings and size have been consistent since the employment by the Corporation of the current chief executive officer in 1992.

The Corporation experienced significant losses in its first four years of the Bank's operation, including net losses of $529 thousand in 1989, $381 thousand in 1990, $2.748 million in 1991, and $474 thousand in 1992. In late 1991, two significant loans with overdrafts and unusual extensions of credit aggregating approximately $2.1 million were written off, without any subsequent recovery. At December 31, 1991 the Corporation had a negative net worth of $828 thousand, total assets of $15.883 million and a ratio of non-performing assets and past due loans to total loans of 5.85%, which ratio peaked at 10.39% at June 30, 1992. The Corporation was placed under a Memorandum of Understanding by regulatory authorities in 1992 and the Board of Directors of the Corporation accepted the resignations of the president, the chief lending officer and the treasurer of the Corporation in February, April and May 1992, respectively.

In April 1992, the Corporation's Board of Directors recruited Donald L. Unger, a local, well respected banker, to take over as chief executive officer of the Bank. Mr. Unger, with over 25 years of senior banking experience in the Winchester and surrounding markets, had served as chief executive officer and a

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director of The Peoples Bank of Front Royal, Front Royal, Virginia ("The Peoples Bank"). Under Mr. Unger's leadership, the net income of The Peoples Bank steadily increased from approximately $75 thousand in 1980 to $801 thousand in 1991 while, during the same period, assets increased from approximately $10 million to $60 million. Over the 1981-1991 period, the average annual return on equity and average annual return on assets of The Peoples Bank were 17.40% and 1.59%, respectively. This period included the recession years of 1988-1991, when the average annual return on equity and average annual return on assets were 15.72% and 1.40%, respectively. The Peoples Bank was sold to a large statewide bank holding company in 1992.

Prior to hiring Mr. Unger, the Corporation's primary focus was on commercial lending, which was largely unsecured. Under new management, the Corporation's loan portfolio, deposit base and general operations were diversified with the goal of reducing the volatility of assets and liabilities, collateralizing the loan portfolio, and transforming the institution into a full service community bank. From December 31, 1991 to June 30, 1996 consumer installment loans increased 882.70% and loans secured by real estate increased 134.44%. The Corporation's loan portfolio stabilized, and at June 30, 1996 the loan mix consisted of 52.24% consumer installment and real property loans and 47.76% commercial loans, a significant portion of which commercial loans were secured by real estate, deposits and marketable securities. The Corporation also began to originate and sell loans in the secondary mortgage market in September 1993, and production and sale has steadily increased from $2.237 million in 1994, to $3.502 million in 1995, and $2.389 million during the first six months of 1996. The Bank emphasized diversifying its deposit base by increasing consumer and commercial deposits and eliminating brokered deposits, which prior to 1991 exceeded the Corporation's non-interest bearing deposits. Average non-interest bearing deposits increased from $909 thousand, representing 6.14% of the Corporation's total deposits at December 31, 1991, to $5.203 million, representing 15.21% of the Corporation's total deposits, at June 30, 1996. This shift substantially impacted the Corporation's cost of funds. As a result of this successful turnaround, the Memorandum of Understanding was terminated on November 23, 1994.

In the first three full years under Mr. Unger's leadership, the Corporation's net income steadily increased to $80 thousand in 1993, $318 thousand in 1994 and $421 thousand in 1995. For the first six months of 1996, net income was $304 thousand. These figures include expenses associated with the opening of two additional branches - August 1993 in Front Royal and February 1995 in Winchester. Total assets increased from $15.883 million at December 31, 1991 to $41.611 million at June 30, 1996. Non-performing assets to period end loans and other real estate owned declined from 2.94% at December 31, 1991 to 0.93% at June 30, 1996. Additionally, the Corporation has signed a contract to sell its largest piece of other real estate owned to an unrelated purchaser for cash, which is anticipated to close in October 1996. If the transaction is consummated, the Corporation will reduce its portfolio of other real estate owned by more than 90%. The net interest margin increased from 3.67% in 1991 to 6.04% in 1994, was 5.81% in 1995, and for the first six months of 1996 on an annualized basis was 6.14%. Over the same period, the return on average equity increased from negative 175.2% at December 31, 1991 to positive 21.55% on an annualized basis in the first six months of 1996. The return on average assets increased from negative 16.40% to positive 1.61%; the ratio of nonperforming assets to period end loans and other real estate owned decreased from 2.94% to .93%; while net chargeoffs to average loans declined from 16.91% to .01%. The Corporation has significantly more interest rate sensitive assets than liabilities adjustable within 90 days, and, therefore, the net interest margin would be expected to benefit from an increase in interest rates during this 90-day period.

As part of the recapitalization of the Corporation in 1992, the Corporation, in private placements, issued two rounds of Common Stock at $5.00 per share, Convertible Preferred Stock convertible into Common Stock at $5.00 per share (which was mandatorily converted in July 1995) and warrants to purchase Common Stock at $5.00 per share. At June 30, 1996, 200,688 of such warrants were outstanding and exercisable through June 30, 1997.

The Corporation is the only independent community bank headquartered in the City of Winchester or Frederick County, Virginia. The Corporation's primary market is the Northern Shenandoah Valley, which includes Frederick County, where, based on total financial institution deposits at June 30, 1995, it was the fourth largest financial institution with approximately 11% of the market, Warren County, including the Town of Front Royal, where, based on total financial institution deposits at June 30, 1995, it was the ninth largest financial institution with approximately 4% of the market, and the City of Winchester, the largest market in the four county area of Frederick, Warren, Shenandoah and Clarke Counties. Winchester and Front Royal are located at or

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near the intersections of I-81 and I-66 on the western fringe of the greater Washington-Baltimore Metropolitan Statistical Area, the fourth largest market in the United States.

Seventeen Fortune 500 companies have major manufacturing facilities in the Northern Shenandoah Valley. In addition, Warren County is becoming a significant center, in the Mid-Atlantic region, for manufacturing and distribution due to its proximity to the Virginia Inland Port, a state sponsored facility to expedite truck and rail shipments to the Hampton Roads Port. Pen-Tab Inc. opened a manufacturing and distribution center in the first quarter of 1996 which employs over 270 persons. Toray, Inc. recently broke ground on a $120 million full service manufacturing plant which anticipates employing 120 persons in 1997 and over 500 persons by the year 2000. Major employers in the four county area include Valley Health Systems, Inc., National Fruit Products, Inc., Crown Cork and Seal, Automotive Industries Inc., Rubbermaid Commercial Products, General Electric, AT&T Communications, duPont, Inc. and O'Sullivan Corporation.

The directors of the Corporation have agreed with the Underwriter to a standard requirement not to sell or otherwise dispose of any shares of Common Stock for a period of 120 days after the commencement of the Offerings without the prior written consent of the Underwriter. It is anticipated that the Underwriter will not give its consent to any sales or dispositions during this period that, in its opinion, may have an adverse effect on the market price of the Common Stock. After the expiration of the 120 day period, sales of Common Stock by these individuals may have an adverse effect on the market price. Officers of the Bank who are not directors have not entered into any agreements restricting sales of their Common Stock in the Bank. See "Underwriting."

The Bank is chartered under the laws of the Commonwealth of Virginia and is a member of the Federal Reserve System. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"), and the

Bank is subject to the supervision, examination, and regulation of the Board of Governors of the Federal Reserve System (the "Federal Reserve") and the Virginia Bureau of Financial Institutions.

The Corporation's headquarters is located at 4095 Valley Pike, Winchester, Virginia 22602 and its telephone number is (540) 869-6600.

INVESTMENT CONSIDERATIONS

In addition to the other information in this Prospectus, prospective investors should carefully consider the following factors before purchasing shares of Common Stock offered hereby.

Dependence on Key Personnel. The Corporation is substantially dependent upon the services of Donald L. Unger, its President and Chief Executive Officer. The loss of the services of Mr. Unger could have a material adverse effect upon the future prospects of the Corporation. The Corporation has entered into an employment agreement with Mr. Unger and maintains a "key" man insurance policy insuring his life in the amount of $1 million. See "Management - Chief Executive Officer Employment Agreement and Incentive Bonus Plan."

Competition. The banking business in the area served by the Corporation (the Counties of Frederick, Clarke, Shenandoah, and Warren (including the Town of Front Royal), Virginia and the City of Winchester) is highly competitive with respect to both loans and deposits. In the Corporation's primary service area, there are approximately eleven commercial banks and savings and loans (including seven large, Virginia-wide banks with multiple offices) offering services ranging from deposits and real estate loans to full service banking. The Bank is the newest and smallest commercial bank in its service area, in addition, there can be no assurance that other financial institutions, with substantially greater resources than the Corporation, will not establish operations in the Corporation's service area.

Governmental Regulation. The Corporation is subject to extensive governmental supervision, regulation, and control, and future legislation and governmental policy could adversely affect the banking industry and the operations of the Bank. Regulations affecting the banking industry may be changed at any time, and the interpretation of those regulations by examining authorities of the banking industry is also subject to change. There can be no assurance that future changes in legislation and administrative regulations or government policies will not adversely affect the banking industry and the business of the Bank. See "Business - Supervision and Regulation."

No Assurance of Established Public Trading Market. The Corporation has applied to have its Common Stock approved for listing on the NASDAQ SmallCap

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Market; however, there can be no assurance that an active trading market for the Corporation's Common Stock will develop after the Offerings, or if developed, that such a market will be sustained. The market price of the Common Stock may fluctuate substantially and may be adversely affected by factors that may or may not be related to the Corporation's performance. Such factors may include interest rates and conditions in the banking industry, the stock market, and the economy in general.

Geographic Concentration of Loans. The vast majority of the Bank's loans are made to borrowers within Winchester, Front Royal and Frederick County, Virginia, and adjacent areas. Accordingly, a major downturn in the local economy could adversely affect the Corporation's loan portfolio.

Uncertainties Regarding Growth. The Corporation has experienced substantial growth in the last few years. Although the Corporation plans to continue growing at a significant rate in the future, there can be no guarantee that the recent rate can be maintained. If such anticipated growth does occur, management will have to continue administering the Corporation's operations in an efficient and productive manner consistent with its recent past practices.

Payment of Cash Dividends. The Corporation has never paid any cash dividends. The ability of the Corporation to pay cash dividends is subject to both federal and state banking regulations. The Bank will not be able to and does not intend to pay any dividends in the foreseeable future. See "Market Price and Dividend Data" and "Business - Supervision and Regulation - Limits on Dividends and Other Payments."

Determination of Offering Price. The offering price of the Shares has been determined in large part by negotiation between the Corporation and the Underwriter based upon certain factors, including an evaluation of assets, earnings, and other established criteria of value, as well as the comparisons of the relationships between market prices and book values of other banking institutions of a similar size and asset quality. There can be no assurance that the Shares can be resold at the offering price. See "Market Price and Dividend Data" and "Underwriting."

No Minimum Offering. The Underwriter is selling the Shares on a best efforts basis, which means that it may sell all, none or only some of the Shares. As there is no minimum number of Shares that must be sold, a closing of the Offerings could occur even if only a small number of Shares is sold. In such event, the Corporation may not raise sufficient funds to support future asset growth or open new branches. See "Use of Proceeds" and "Underwriting."

Conflicts of Interest. The Corporation has engaged in certain transactions with certain directors and executive officers, which may present certain conflicts of interest. See "Management--Indebtedness and Other Transactions."

Influence by Management. The Corporation's directors and executive officers together beneficially own 34.45% of the Corporation's outstanding common stock prior to the Offerings, and after the Offerings, the directors and executive officers will continue to own a substantial portion of the Company's common stock. As a result, these directors and executive officers, if acting together, will be able to strongly influence matters requiring approval by the shareholders of the Corporation, including the election of directors. See "Management--Security Ownership of Management."

No Independent Counsel. The Corporation and the Underwriter are both represented by Kaufman & Canoles, and, accordingly, neither the Corporation nor the Underwriter has the benefit of independent representation. In the event the interests of the Corporation and the Underwriter diverge, each of them will be required to obtain other legal counsel. See "Legal Matters."

OFFERING TO STOCKHOLDERS

The Corporation is offering 100,000 Subscription Shares until September 24, 1996, for sale to the holders of its Common Stock of record on June 24, 1996 (the "Record Date") residing in jurisdictions in which the Corporation has registered the Subscription Shares under the jurisdiction's securities laws, or in which issuance of the Subscription Shares is exempt from such registration requirements. Stockholders of record at the close of business on the Record Date may purchase Subscription Shares on the basis of one Subscription Share for each 12 shares of Common Stock beneficially owned by them on such date. Stockholders may oversubscribe for Subscription Shares. If oversubscriptions exceed the available Subscription Shares, the available

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Subscription Shares will be allocated among the oversubscribers based upon the ratio that the number of shares of Common Stock owned by the oversubscriber on the Record Date bears to the number of shares of Common Stock owned by all of the oversubscribers on the Record Date. Fractional shares will not be sold, but stockholders may round any such fraction up to a full share. Stockholders also may subscribe for less than the maximum number of Subscription Shares allocated to them.

The Subscription Offering to stockholders will terminate on September 24, 1996. Neither the Subscription Offering nor the Public Offering is contingent upon the occurrence of any event, including consummation of the Public Offering, or the sale of a minimum or maximum number of Shares. Funds received by the Corporation from stockholders in the Subscription Offering will be deposited with and held by the Corporation in a noninterest bearing escrow account until the simultaneous closing of both the Subscription Offering and the Public Offering. The Corporation does not intend to return the funds of purchasers if fewer than all of the Shares offered are sold.

The Subscription Offering price was determined by the Corporation after consultation with the Underwriter. Among the factors considered in determining the price of the Subscription Shares were the history and the prospects for the Corporation, its past and present earnings and trends of such earnings, the prospects for future earnings, the current performance and prospects of the segment of the banking industry in which the Corporation competes, the general condition of the securities market at the time of the Subscription Offering, and the price of equity securities of comparable companies.

All Subscription Shares unsubscribed for, plus an additional 400,000 Shares, will be offered for sale to the public in the Public Offering on a best efforts basis by the Underwriter, as selling agent for the Corporation. There can be no assurance that any of the Shares will be sold. See "Underwriting."

To subscribe for Subscription Shares, stockholders should execute the Subscription Agreement accompanying this Prospectus and deliver it, together with a check payable to the order of "Marathon Financial Corporation" for the full purchase price, to:

Marathon Financial Corporation
4095 Valley Pike
Winchester, VA 22602
Attention: Donald L. Unger
Telephone: 540-869-6600

SUBSCRIPTION AGREEMENTS AND FULL PAYMENT FOR SUBSCRIPTION SHARES SUBSCRIBED FOR BY STOCKHOLDERS MUST BE RECEIVED BY THE CORPORATION PRIOR TO 5:00 P.M. EASTERN STANDARD TIME ON SEPTEMBER 24, 1996, OR SUBSCRIBING STOCKHOLDERS WILL FORFEIT THEIR RIGHT TO PURCHASE SUBSCRIPTION SHARES IN THIS SUBSCRIPTION OFFERING.

USE OF PROCEEDS

The net proceeds to be received by the Corporation from the offering, after deduction of underwriting fees and commissions and estimated expenses, will be used to support future asset growth, including the potential opening of new branches, and for general corporate purposes.

CAPITALIZATION

The following table sets forth the capitalization of the Corporation at June 30, 1996. The table should be read in conjunction with the financial statements and related notes thereto included elsewhere in this Prospectus.

	June 30, 1996 (Dollars in thousands)
Stockholders' equity:	
Preferred stock, Series A, 5% noncumulative, no par value; 1,000,000 shares authorized; no shares issued and outstanding(1)	$ -
Common Stock, $1.00 par value, 20,000,000 shares authorized, 1,306,303 shares issued and outstanding(2).....	1,306

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Capital surplus	5,110
Retained Earnings (Deficit)	(3,443)
Unrealized gain (loss) on securities available for sale	(10)
Total stockholders' equity	$ 2,963

(1) In July 1995, all of the Corporation's then outstanding convertible preferred stock was mandatorily converted into Common Stock.

(2) In addition, there are outstanding warrants to purchase 200,688 shares of the Corporation's Common Stock at $5.00 per share exercisable through June 30, 1997 and options to purchase 500 shares of the Corporation's Common Stock at $5.00 per share exercisable through June 1, 1997.

(3) In August 1996, the Corporation's Board of Directors approved creation of an employee and director stock option plan, and awards have been approved under such plan in the aggregate amount of 141,875 shares, 68,125 of which will be exercisable immediately upon shareholder approval.

MARKET PRICE AND DIVIDEND DATA

The Corporation has applied to have the Common Stock approved for listing on the NASDAQ SmallCap Market under the symbol "MFCV" effective upon the closing of the Offerings; however, there can be no assurance that an active trading market for the Corporation's Common Stock will develop after the Offerings, or if developed, that such a market will be sustained. There is no recognized market for the Corporation's common stock. There are occasional transactions in the stock and the Corporation's management has assisted in matching persons interested in buying and selling common stock. In July 1995, all of the Corporation's convertible preferred stock was mandatorily converted to Common Stock at the conversion price of $5.00 per share. The sporadic trades in the Common Stock during the past year and a half have been at or about $5.00 per share. At June 30, 1996 the Corporation had approximately 792 stockholders of record (approximately 850 beneficial holders).

The book value of the Corporation's Common Stock at June 30, 1996 was $2.27 per share. At June 30, 1996, Corporation's operating tax loss carryforward was $3.226 million.

The Corporation has paid no cash dividends to date. Holders of the Corporation's Common Stock will be entitled to dividends at such rate as may be determined from time to time by the Board of Directors of the Corporation. The Virginia Stock Corporation Act provides that a corporation may pay a cash dividend to its shareholders so long as, after giving effect to such dividend, the corporation will be able to pay its debts as they become due and the value of the Corporation's assets exceeds its liabilities (plus the amount, if any, necessary to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those shareholders receiving the dividend). The Corporation's future dividends will depend on its earnings and those of the Bank, general economic conditions, and other factors affecting dividend policy.

Under state law, without the consent of the Bureau of Financial Institutions, the Bank may not pay dividends until it has restored any deficit in its capital funds as originally paid in. Further, a regulation promulgated by the Board of Governors of the Federal Reserve System requires approval of two-thirds of the holders of the Corporation's shares prior to payment of a dividend until any deficit in the Bank's capital account has been restored.

While the Corporation has not been permitted to pay cash dividends, it did issue one stock dividend. On December 19, 1995, the Corporation declared a stock dividend for holders of Common Stock for year-end 1995. The stock dividend declared was 15% of 1995 profits, which was $.04873 per share. The dividend was paid in the first quarter of 1996. The stock dividend assumed a value of $5.00 per share. The Corporation obtained approval from the regulators prior to issuing said shares in compliance with Virginia Code Section 6.1-56, which

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requires prior approval because of impaired capital.

SELECTED FINANCIAL DATA

The year-end income statement data, the year-end per share data, and the year-end balance sheet data regarding net income contained in the following selected financial data for the five years ended December 31, 1995 are derived from the audited historical consolidated financial statements of the Corporation. The financial data for the six months ended June 30, 1996 and 1995 are derived from unaudited consolidated financial statements. The selected financial data should be read in conjunction with the consolidated financial statements of the Corporation included elsewhere in this Prospectus.

<TABLE>
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	Six months ended June 30,		Years ended December 31,				
	1996	1995	1995	1994	1993	1992	1991
			(Dollars in thousands, except per share data)				
<S> <C>							
Income Statement Data:							
Interest income	$ 1,778	$ 1,343	$ 2,940	$ 2,251	$ 1,625	$ 1,361	$ 1,580
Interest expense	740	566	1,252	849	717	768	1,014
Net interest income	1,038	777	1,688	1,402	908	593	566
Provision for loan losses	73	16	113	151	12	(88)	2,458
Net interest income after provision for loan losses	965	761	1,575	1,251	896	681	(1,892)
Noninterest income	194	101	281	242	93	111	180
Noninterest expense	855	685	1,435	1,175	909	1,266	1,036
Income (loss) before income taxes	304	177	421	318	80	(474)	(2,748)
Income tax expense	103	59	143	101	--	--	--
Benefit of net operating loss(1)	(103)	(59)	(143)	(101)	--	--	--
Net income (loss)	$ 304	$ 177	$ 421	$ 318	$ 80	$ (474)	$ (2,748)
Per Share Data:							
Net income (loss)	$ .23	$ .16	$ .35	$ .30	$ .08	$ (.40)	$ (4.51)
Cash dividends	--	--	--	--	--	--	--
Book value at period end	2.27	1.90	2.05	1.75	1.52	1.25	(1.36)
Tangible book value at period end	2.27	1.90	2.05	1.75	1.52	1.25	(1.36)
Balance Sheet Data:							
Total assets	$ 41,611	$ 32,266	$ 36,070	$ 27,682	$ 22,379	$ 16,111	$ 15,883
Loans, net	31,596	26,606	28,774	22,618	18,149	10,828	11,545
Securities	1,691	1,506	1,699	1,490	1,517	2,168	2,572
Deposits	37,866	29,045	32,622	24,604	19,606	13,678	16,391
Stockholders' equity (deficit)	2,983	2,434	2,678	2,244	1,934	1,497	(828)
Average shares outstanding(2)	1,306	1,091	1,192	1,083	1,055	743	615
Performance Ratios(3):							
Return on average assets	1.61%	1.18%	1.31%	1.23%	.42%	(3.10)%	(16.40)%
Return on average equity	21.55	15.13	16.96	15.28	4.51	(90.00)	(175.20)
Net interest margin(4)	6.14	6.21	5.81	6.04	5.38	4.31	3.67
Efficiency(5)	69.40	78.02	72.88	71.47	90.81	179.83	138.87
Asset Quality Ratios:							
Allowance for loan losses to period end loans	1.45%	1.15%	1.35%	1.31%	1.22%	1.78%	3.85%
Allowance for loan losses to nonaccrual loans	725.00	107.27	873.33	111.11	1,184.21	0.00	130.51
Nonperforming assets to period end loans and other real estate owned(6)	0.93(7)	1.07	0.96	1.18	0.10	0.00	2.94
Net charge-offs (recoveries) to average loans	.01	.04	.07	.37	(0.12)	1.63	16.91
Capital and Liquidity Ratios:							
Leverage	7.88%	8.10%	8.32%	8.69%	9.99%	9.38%	(5.21)%
Risk based:							
Tier I capital	9.20	9.19	9.40	10.04	10.67	11.71	(5.45)
Total capital	10.45	10.37	10.60	11.29	11.92	13.30	(3.33)
Average loans to average deposits	90.33%	92.07%	91.57%	91.79%	87.79%	77.70%	84.80%

</TABLE>

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(1) At June 30, 1996, the Corporation had available approximately $3.226 million of an operating tax loss carryforward which could be offset against future income.
(2) All periods have been restated to reflect the stock dividend declared in 1995.
(3) Annualized for the six months ended June 30, 1996 and 1995.
(4) Net interest margin is calculated as net interest income divided by average earning assets and represents the Corporation's net yield on its earning assets.
(5) Computed by dividing noninterest expense by the sum of net interest income and noninterest income, net of securities gains or losses.
(6) Nonperforming assets consist of nonaccrual loans and foreclosed properties.

(7) The Corporation signed a contract to sell its largest piece of other real estate owned to an unrelated purchaser for cash, which is anticipated to close in October 1996. If the transaction is consummated, the Corporation will reduce its portfolio of other real estate owned by more than 90%.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS OF MARATHON FINANCIAL CORPORATION

The following discussion is intended to assist readers in understanding and evaluating the financial condition and results of operations of the Corporation. This review should be read in conjunction with the Corporation's financial statements and accompanying notes included elsewhere herein. This analysis provides an overview of the significant changes that occurred during the periods presented.

Overview

The Corporation's performance for the first six months of 1996 showed an improvement over the same period a year ago. Net income increased 71.75% in the first half of 1996 to $304 thousand compared to $177 thousand during the same period of 1995. This increase in earnings was primarily due to higher net interest income resulting from increased loan growth.

Return on average equity on an annualized basis during the first six months of 1996 increased to 21.55%, up from 15.13% for the same period in 1995. Return on average assets on an annualized basis was 1.61% during this period compared to 1.18% for the first six months of 1995. These performance figures had been at extremely low levels in 1991 and 1992 due to a provision for loan losses of $2.1 million related primarily to two unsecured loans in 1991, and increases in nonperforming assets in the first half of 1992, as a result of prior management's lending practices, before beginning to improve in the second half of 1992 under a new management team. Return on average assets was negative 16.40% and negative 3.10% in 1991 and 1992, respectively, and increased steadily thereafter to positive 0.42% in 1993, to 1.23% in 1994, and to 1.31% in 1995. Return on average equity, likewise, was negative 175.20% and negative 90.0% in 1991 and 1992, respectively, before increasing steadily to 4.51% in 1993, 15.28% in 1994 and 16.96% in 1995.

The Corporation experienced limited loan growth from 1990 through 1992 until, under a new chief executive officer and management team, improvement began in 1993. In 1991, average total assets increased 18.15% to $16.723 million from $14.154 million in 1990, and declined in 1992 to $15.439 million, a 7.68% decrease from the prior year. Average total assets increased to $19.184 million in 1993, up 24.26%, and continued to increase in 1994 to $25.869 million, up 34.85% from the prior year, and in 1995 to $32.090 million, up 24.05% from the prior year, and, for the first six months of 1996 to $37.739 million, up 26.03% over the comparable period of 1995. This increase in average assets subsequent to 1992 was, under the new chief executive officer, the result of new branches opened in 1993 and 1995 in Front Royal and Winchester, Virginia, respectively, and an emphasis on consumer and secured commercial loan growth. Average loans were also relatively flat in the 1990-1992 period, with an increase of 26.33% in 1991 to $12.454 million from $9.858 million in 1990 and a subsequent decline to $10.948 million in 1992, down 12.09% from the prior year. Average total earning assets increased 22.83% in 1993 to $16.890 million from the prior year, and to $23.225 million in 1994, up 37.51% over 1993, and to $29.040 million in 1995, up 25.04% over 1994, and, for the first six months of 1996 to $33.776 million, up 34.98% over the comparable period of 1995. Average installment loans increased steadily from $1.403 million at December 31, 1993 to $6.902 million at June 30, 1996, an increase of 391.95%. Both commercial and real estate loans also escalated over the same period. Average commercial loans increased to $13.940 million for the six months ended June 30, 1996, a rise of 68.99% over the average amount of commercial loans in 1993. Similarly, average real estate loans grew to $10.055 million for the six months ended June 30, 1996, an increase of 106.72% over the average amount of real estate loans in 1993.

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Non-performing assets and past due loans to total loans peaked at 10.39% at June 30, 1992, and net charge-offs peaked in 1991 at $2.106 million, primarily from the charge-off of two loans. Non-performing assets at June 30, 1996, were $300 thousand, or 0.93% of period end loans and other real estate owned, and the allowance for loan losses was $464 thousand. The allowance for loan losses to period end loans at June 30, 1996 was 1.45% and net charge-offs to average loans in the first six months of 1996, annualized, was 0.01%. The provision for loan losses in the first six months of 1996 was $73 thousand, up 356.25% from $16 thousand in the comparable period

of 1995, while net charge-offs were $2 thousand versus $5 thousand in the first half of 1995. In November 1994, the Corporation was released from the Written Agreement that it entered into in 1992 with the Federal Reserve and the Virginia Bureau of Financial Institutions.

On an annualized basis, the Corporation's net interest margin declined slightly to 6.14% in the first half of 1996, from 6.21% during the same period of 1995. Net interest margin had increased to 6.04% in 1994 from 5.38% in 1993 and 4.31% in 1992. In a period of declining market interest rates, as a result of the Corporation's increased loan demand, a decline in its average cost of interest bearing liabilities, an increase in its non-interest bearing deposits and a shift from securities into higher yielding loans, the Corporation's net interest margin increased in 1994 over the 1993 level. In 1995 the net interest margin declined slightly to 5.81% from 6.04% in 1994 under rising interest rates, as the cost of interest bearing liabilities rose more than the increase in yields on interest earning assets. In the first six months of 1996 an increase in average loan volume was partially offset by an increase in the average cost of funds required to support this growth and a decline in the average yield in earning assets.

Recent Developments

The Corporation signed a contract to sell its largest piece of other real estate owned to an unrelated purchaser for cash, which is anticipated to close in October 1996. If the transaction is consummated, the Corporation will reduce its portfolio of other real estate owned by more than 90%.

Net Interest Income

Net interest income is the major component of the Corporation's earnings and is equal to the amount by which interest income exceeds interest expense. Earning assets are composed primarily of loans and securities, while deposits and short-term borrowings represent the major portion of interest-bearing liabilities. Changes in volume and mix in assets and liabilities, as well as changes in the yields and rates paid, determine changes in net interest income. Net interest margin is calculated by dividing net interest income by average earning assets and represents the Corporation's net yield on earning assets.

Net interest income was $1.037 million in the first half of 1996, 33.59% greater than the $777 thousand reported during the comparable period of 1995. The improvement in net interest income was primarily due to volume increases in the loan portfolio, as the loan demand, continued to increase. The average balance of the loan portfolio was $30.897 million for the first six months ended June 30, 1996, up $6.391 million, or 26.08%, over the same period in 1995. The average balances of installment and commercial loans were $6.902 million and $13.940 million, respectively, for the six months ended June 30, 1996, up 60.51% and 13.98% respectively, over the same period of 1995. The average balance of the securities portfolio was $1.627 million for the six months ended June 30, 1996, up 7.68% over the comparable 1995 period. Despite lower interest rates in the first half of 1996 than in the comparable period of 1995, the average yield on loans increased 50 basis points from 10.48% in 1995 to 10.98% in 1996 with an increase of 107 basis points on real estate loan yields and an increase of 48 basis points in the average yields on commercial loans offsetting a decline of 48 basis points in the average yields on installment loans. However, an increase in average federal funds sold of 142.17% to $1.252 million coupled with a decline in average yields on federal funds sold of 108 basis points to 5.11% produced a slight decline of 20 basis points in the average yield on total interest earning assets to 10.53% from 10.73% in 1995. The average level of interest earning assets increased 34.98% to $33.776 million. Despite the decline of interest rates the average cost of funds to support the growth in interest increased. Total interest bearing liabilities increased 27.20% to $29.637 million led by a 35.28% increase in certificates of deposit under $100,000 to $15.162 million and a 29.47% increase in money market savings to $3.185 million and a 33.96% increase in interest checking accounts to

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$2.154 million. The average costs of interest bearing liabilities increased 14 basis points to 5.00% from 4.86%. This increase was led by a 6 basis point rise in the average cost of certificates of deposit under $100,000 and a 49 basis point increase in the average cost of money market certificates to 3.58%. A 28.34% increase in non interest bearing deposits to $5.203 million partially mitigated the rise in the costs of interest bearing deposits but the net interest margin declined from 6.21% in 1995's first half to 6.14% in 1996's comparable period. The increase in the average costs of interest bearing

deposits and the decline in the yield on interest earning assets offset the volume gains in loans, particularly commercial and installment loans.

Net interest income was $1.688 million in 1995, 20.40% greater than the $1.402 million reported in 1994. The improvement in net interest income was primarily due to volume and interest rate increases in the loan portfolio, particularly installment and real estate loans. The average balance of loans increased 25.56%, led by a 74.69% increase in installment loans and a 36.68% increase in real estate loans. The average balance of the securities portfolio declined 1.19%. Average balances of interest earning assets increased 25.04% to $29.040 million. The average yields on interest earning assets increased 43 basis points from 10.11% in 1994 to 10.12% in 1995 led by a 46 basis point increase in the average yield on loans to 10.57% which offset a 92 basis point decline in the average yield on securities. Commercial, real estate and installment loan yields increased 36, 79 and 43 basis points, respectively. Total interest bearing liabilities increased 26.53% to $25.411 million while the average rates paid on interest bearing liabilities increased 70 basis points to 4.93%, with the cost of interest bearing deposits increasing 73 basis points. The greater increase in the rates paid for interest bearing deposits than in the yields earned on interest earning assets produced a decline in the net interest margin from 6.04% in 1994 to 5.81% in 1995.

Net interest income in 1994 compared to 1993 increased $494 thousand, or 54.41%, to $1.402 million. This increase in net interest income was due primarily to volume increases in the loan portfolio. The average balance of loans increased 44.65% to $20.997 million, with commercial loans up 42.81%, real estate loans up 30.53% and installment loans up 104.42%. The average balance of the securities portfolio declined 12.68% to $1.515 million. The average yield earned on interest earning assets increased 7 basis points to 9.69% despite generally declining interest rates. The yield on loans increased 2 basis points to 9.69% led by a 21 basis point increase in the yields on real estate loans while yields on commercial and installment loans declined. The average yield on the securities portfolio declined 145 basis points which was somewhat offset by an increase of 68 basis points in the yields earned on federal funds sold. Total interest bearing liabilities increased 32.39% to $20.083 million while the average rates paid on interest earning assets declined 50 basis points to 4.23%. The decline in the rates paid on interest earning assets coupled with the actual increase in the average rate earned on interest earning assets and the higher relative growth in interest earning assets over the increase in interest bearing liabilities produced an increase in the net interest margin from 5.38% in 1993 to 6.04% in 1994.

The following table illustrates average balances of total interest earning assets and total interest bearing liabilities for the periods indicated, showing the distribution of assets, liabilities, stockholder's equity, and the related income, expense, and corresponding weighted average yields and costs. The average balances used for the purpose of these tables and other statistical disclosures were calculated by using the daily average balances. Due to the net operating loss carryforwards available, the Corporation currently does not pay income taxes; therefore, income and yields are not reflected on a tax equivalent basis.

Average Balances, Interest Income and Expenses, and Average Yields and Rates

<TABLE>
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	Six months Ended June 30,		Years Ended December 31,			
	1996		1995		1994	
	Interest	Average	Interest	Average	Interest	Average

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	Average balance	income/ expense	yield/ rate	Average balance	income/ expense	yield/ rate	Average balance	income/ expense	yield/ rate
	(Dollars in thousands)								
Assets:									
Interest bearing assets:									
Securities....................	$ 1,627	$ 50	6.15%	$ 1,497	$ 87	5.81%	$ 1,515	$ 102	6.73%
Loans(1):									
Commercial..................	13,940	772	11.08	12,676	1,386	10.93	11,780	1,245	10.57
Real estate.................	10,055	544	10.82	8,678	872	10.05	6,349	588	9.26
Installment.................	6,902	380	11.01	5,010	528	10.54	2,868	290	10.11
Total Loans...............	30,897	1,696	10.98	26,364	2,786	10.57	20,997	2,123	10.11
Federal funds sold............	1,252	32	5.11	1,179	67	5.68	713	26	3.65
Total earning assets......	33,776	1,778	10.53	29,040	2,940	10.12	23,225	2,251	9.69
Less: Allowance for loan losses	(423)			(324)			(260)		
Total noninterest earning assets	4,386			3,374			2,904		
Total Assets....................	$37,739			$32,090			$25,869		
Liabilities and stockholders equity:									
Interest bearing liabilities:									
Interest bearing deposits:									
Interest checking...........	$ 2,154	$ 30	2.79%	$ 1,756	$ 48	2.73%	$ 1,375	$ 39	2.84%
Regular savings.............	4,823	80	3.32	5,009	158	3.15	6,543	212	3.24
Money market savings........	3,185	57	3.58	2,661	93	3.49	2,356	86	3.65
Certificates of deposit:									
$100,000 and over.........	3,679	105	5.71	2,843	166	5.84	1,277	46	3.60
Under $100,000............	15,162	446	5.88	12,488	738	5.91	7,870	419	5.32
Total interest bearing deposits................	29,003	718	4.95	24,757	1,203	4.86	19,421	802	4.13
Short-term borrowings.........	28	1	7.14	25	1	4.00	83	4	4.82
Mortgage payable..............	502	18	7.17	519	39	7.51	539	40	7.42
Capital lease payable.........	104	4	7.69	110	9	8.18	40	3	7.50
Total interest bearing liabilities.................	29,637	741	5.00	25,411	1,252	4.93	20,083	849	4.23
Non interest bearing liabilities:									
Demand deposits.............	5,203			4,034			3,455		
Other liabilities...........	78			165			250		
Total noninterest liabilities............	5,281			4,199			3,705		
Total liabilities............	34,918			29,610			23,788		
Stockholders' equity..........	2,821			2,480			2,081		
Total Liabilities and Stockholders' equity........	$37,739			$32,090			$25,869		
Net interest income...........		$1,037			$1,688			$1,402	
Interest rate spread (2)......			5.53%			5.19%			5.46%
Interest expense as a percent of average earning assets......			4.39%			4.31%			3.66%
Net interest margin (3).......			6.14%			5.81%			6.04%

<S> <C>

</TABLE>

	1993		
	Average balances	Interest income/ expense	Average yield/ rate
Assets:			
Interest bearing assets:			
Securities....................	$ 1,735	$ 142	8.18%
Loans(1):			
Commercial..................	8,249	877	10.63
Real estate.................	4,864	440	9.05
Installment.................	1,403	147	10.48
Total Loans...............	14,516	1,464	10.09
Federal funds sold............	639	19	2.97
Total earning assets......	16,890	1,625	9.62
Less: Allowance for loan losses	(212)		
Total noninterest earning assets	2,506		
Total Assets....................	$19,184		

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	=======		
Liabilities and stockholders equity:			
Interest bearing liabilities:			
Interest bearing deposits:			
Interest checking...........	$ 814	$ 24	2.95%
Regular savings.............	4,721	193	4.09
Money market savings........	2,471	81	3.28
Certificates of deposit:			
$100,000 and over.........	773	43	5.56
Under $100,000............	5,846	321	5.49
Total interest bearing deposits................	14,625	662	4.53
Short-term borrowings.........	-	-	0.00
Mortgage payable..............	545	55	10.09
Capital lease payable.........	-	-	0.00
Total interest bearing liabilities.................	15,170	717	4.73
Non interest bearing liabilities:			
Demand deposits.............	1,909		
Other liabilities...........	333		
Total noninterest liabilities............	2,242		
Total liabilities.............	17,412		
Stockholders' equity..........	1,772		
Total Liabilities and Stockholders' equity........	$19,184		
	=======		
Net interest income...........		$ 908	
		======	
Interest rate spread (2)......			4.89%
Interest expense as a percent of average earning assets......			4.25%
Net interest margin (3).......			5.38%

----

(1) Nonaccruing loans are included in average loans outstanding.

(2) Interest spread is the average yield earned on earning assets less the average rate incurred on interest-bearing liabilities.

(3) Net interest margin is net interest income expressed as a percentage of average earnings assets.

The following table describes the impact on the interest income of the Corporation resulting from changes in average balances and average rates for the periods indicated. The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Volume and Rate Analysis

<TABLE>
<CAPTION>

	June 30, 1996 compared to June 30, 1995			Years Ended December 31, 1995 compared to 1994			1994 compared to 1993		
	Change Due To:			Change Due To:			Change Due To:		
	Volume	Rate	Increase (Decrease)	Volume	Rate	Increase (Decrease)	Volume	Rate	Increase (Decrease)
	(Dollars in thousands)								
<S> <C>									
Assets:									
Securities......................	$ 3	$ 4	$ 7	$ (1)	$(14)	$(15)	$(17)	$(23)	$(40)
Loans:									
Commercial......................	94	30	124	97	44	141	373	(5)	368
Real estate.....................	109	46	155	230	54	284	138	10	148
Installment.....................	143	(10)	133	225	13	238	148	(5)	143
Total Loans....................	346	66	412	552	111	663	659	-	659

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Federal funds sold................	18	(2)	(16)	22	19	41	2	5	7
Total earning assets............	367	68	435	573	116	689	644	(18)	626
Liabilities and Stockholder's Equity:									
Interest bearing deposits:									
Interest Checking.............	7	1	8	10	(1)	9	16	(1)	15
Regular savings................	(1)	2	1	(48)	(6)	(54)	41	(22)	19
Money market savings...........	12	7	19	11	(4)	7	(4)	9	5
Certificates of deposit:									
$100,000 and over...........	39	(3)	36	80	40	120	7	(4)	3
Under $100,000..............	105	8	113	268	51	319	108	(10)	98
Total interest bearing deposits	162	15	177	321	80	401	168	(28)	140
Short-term borrowings.............	(3)	2	(1)	(4)	1	(3)	4	-	4
Mortgage payable..................	(1)	(1)	(2)	(1)	-	(1)	(1)	(14)	(15)
Capital lease payable.............	-	1	1	6	-	6	3	-	3
Total interest-bearing liabilities.	158	17	175	322	81	403	174	(42)	132
Change in net interest income......	$209	$ 51	$260	$251	$ 35	$286	$470	$ 24	$494

</TABLE>

Interest Sensitivity

An important element of both earnings performance and liquidity is management of the interest sensitivity gap. The interest sensitivity gap is the difference between interest-sensitive assets and interest-sensitive liabilities in a specific time interval. The gap can be managed by repricing assets or liabilities, by selling investments available-for-sale, by replacing an asset or liability at maturity, or by adjusting the interest rate during the life of an asset or liability. Matching the amounts of assets and liabilities repricing in the same time interval helps to hedge the risk and minimize the impact on net interest income in periods of rising or falling interest rates.

The Corporation evaluates interest sensitivity risk and then formulates guidelines regarding asset generation and pricing, funding sources and pricing, and off-balance sheet commitments in order to decrease sensitivity risk. These guidelines are based upon management's outlook regarding future interest rate movements, the state of the regional and national economy, and other financial and business risk factors.

The following table illustrates the interest sensitivity gap position of the Corporation as of June 30, 1996. This table presents a position that existed at one particular day, that changes continually, and that is not necessarily indicative of the Corporation's position at any other time. The Corporation has significantly more interest earning assets adjustable within 90 days than interest bearing liabilities adjustable within the same period. As such, an increase in interest rates would increase the Corporation's net interest margin, and conversely, a decrease in interest rates would decrease the net interest margin.

Interest Sensitivity Analysis

<TABLE>
<CAPTION>

	June 30, 1996 (1) Maturing Or Repricing In:				
	Within 90 Days	90-365 Days	1-5 Years	Over 5 Years	Total
	(Dollars in thousands)				
<S> <C>					
Earning Assets:					
Loans(2)....................................	$10,363	$ 5,507	$16,738	$ 385	$32,993
Investment securities, at amortized cost.....	___	100	298	267	665
Securities available for sale, at fair value.	___	___	589	134	723
Federal funds sold..........................	3,148				3,148
Total Earning Assets......................	$13,511	$ 5,607	$17,625	$ 786	$37,529
Interest-Bearing Liabilities:					

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Interest checking(3)	$ ___	$ ___	$ 2,081	$ ___	$ 2,081
Regular savings(3)	___	___	5,057	___	5,057
Money market savings	3,141	___	___	___	3,141
Certificates of deposit:					
$100,000 and over	1,219	1,966	1,164	___	4,349
Under $100,000	1,429	8,717	6,825		16,971
Total Interest-Bearing Liabilities	$ 5,789	$10,683	$15,127	$ -	$31,599
Period gap	$ 7,722	$(5,076)	$ 2,498	$ 786	$ 5,930
Cumulative gap	$ 7,722	$ 2,646	$ 5,144	$5,930	
Ratio of cumulative gap to total earning assets	20.58%	7.05%	13.71%	15.80%	

</TABLE>

----

(1) The repricing dates may differ from maturity dates for certain assets due to prepayment assumptions.

(2) Excludes nonaccrual loans.

(3) The Corporation has determined that interest checking and savings accounts are not sensitive to changes in related market rates and therefore it has placed them in the 1 to 5 years column.

Securities

Investment Securities. The carrying value of investment securities amounted to $665 thousand at June 30, 1996, compared to $926 thousand at December 31, 1995. The comparison of amortized cost to fair value is shown in Note 2 of the notes to the consolidated financial statements. Note 2 also provides an analysis of gross unrealized gains and losses of investment securities. Investment securities consist of the following:

Portfolio of Investment Securities

<TABLE>
<CAPTION>

<S> <C>	June 30, 1996	June 30, 1995	December 31, 1995	December 31, 1994	December 31, 1993
	(Dollars in thousands)				
Book Value:					
U.S. Treasury and other U.S. government agencies and corporations	$ 298	$ 650	$ 650	$ 649	$ 0
States of the U.S. and political subdivisions	251	150	150	150	0
Other securities	116	134	126	147	0
Total Securities	$ 665	$ 934	$ 926	$ 946	$ 0

</TABLE>

Securities Available for Sale. Securities available for sale are used as part of the Corporation's interest rate risk management strategy and may be sold in response to changes in interest rates, changes in prepayment risk, liquidity needs, the need to increase regulatory capital and other factors. The fair value of securities available for sale totaled $1.026 million at June 30, 1996, compared to $773 thousand at December 31, 1995. The comparison of fair market value to amortized cost is shown in Note 2 of the notes to the consolidated financial statements. Note 2 also provides an analysis of gross unrealized gains and losses of securities available for sale.

Securities Available for Sale

<TABLE>
<CAPTION>

<S> <C>	June 30, 1996	June 30, 1995	December 31, 1995	December 31, 1994	December 31, 1993
	(Dollars in thousands)				
Fair Value:					
U.S. Treasury and other U.S. government agencies and corporations	$ 589	$ 293	$ 454	$ 281	$ 926

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States of the U.S. and political subdivisions	0	0	0	0	160
Other securities	437	279	319	263	472
Total Securities	$1,026	$ 572	$ 773	$ 544	$ 1,558

</TABLE>

The Corporation does not hold any derivative instruments.

The following table sets forth the maturity distribution and weighted average yields of the investment portfolio at June 30, 1996. The weighted average yields are calculated on the basis of book value of the investment portfolio and on the interest income of investments adjusted for amortization of premium and accretion of discount.

Maturities of Investments

<TABLE>
<CAPTION>

	June 30, 1996					
	Held to Maturity			Available for Sale		
	Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)					
U.S. Treasury and other U.S. government agencies and corporations						
After one year to five years ...	$298	$293	5.71%	$596	$589	5.99%
Total	298	293	5.71	596	589	5.99
Other Securities						
After one year to five years	251	256	6.64	0	0	0.00
Other	116	117	7.33	137	134	7.54
Total	367	373	6.98	137	134	7.54
Total securities(1)(2)	$665	$666	6.76%	$733	$723	6.22%

</TABLE>

----
(1) Excludes equity securities without readily determinable fair values, at historical costs, as follows: Federal Reserve Bank - $139,550; Virginia Bankers Bank - $50,000; FHLB stock - $108,300 and CDC Stock - $5,000

(2) The equity securities have no stated maturity date.

Loan Portfolio

The Corporation's loan portfolio is comprised of commercial loans, construction loans, real estate loans, and consumer installment loans. The primary market in which the Corporation makes loans is the Northern Shenandoah Valley, which includes Frederick, Shenandoah, Warren and Clarke Counties, and the City of Winchester.

Net loans consist of total loans minus the allowance for loan losses, and where applicable, unearned discounts. Net loans were $31.596 million at June 30, 1996, an 18.76% increase over June 30, 1995. Net loans were $28.774 million at December 31, 1995, 27.22% greater than net loans of $22.618 million at December 31, 1994. The average loans as a percentage of average earning assets was 90.79%, 90.41%, and 85.94% for the years ended December 31, 1995, 1994, and 1993, respectively, and was 91.48% as of June 30, 1996. The Bank does not and has not had any loans outstanding to foreign countries or for highly leveraged transactions.

In the normal course of business, the Corporation makes various commitments and incurs certain contingent liabilities which are disclosed but not reflected in its financial statements. These commitments and contingent liabilities include commitments to extend credit and financial standby letters of credit. At June 30, 1996, commitments for financial standby letters of credit

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totaled $78 thousand and commitments to extend credit were $4.685 million. At December 31, 1995, commitments for financial standby letters of credit totaled $77 thousand and commitments to extend credit totaled $3.699 million. At December 31, 1994, commitments for financial standby letters of credit totaled $55 thousand and commitments to extend credit totaled $2.969 million.

Interest income on installment, commercial, and real estate mortgage loans is computed on the principal balance outstanding. Most variable rate loans carry an interest rate tied to New York Prime, as published in the Wall Street Journal.

The following table summarizes the composition of the loan portfolio at the dates indicated:

Loan Portfolio

<TABLE>
<CAPTION>

<S> <C>	June 30, 1996	June 30, 1995	December 31, 1994	December 31, 1993	December 31, 1992	December 31, 1991
	(Dollars in thousands)					
Commercial........................	$15,311	$13,315	$11,976	$ 7,566	$ 5,798	$ 7,132
Real estate construction..........	4,015	3,638	2,488	1,788	945	1,289
Real estate mortgage..............	5,747	6,133	4,924	5,807	2,508	2,875
Installment loans.................	6,987	6,081	3,529	3,213	1,773	711
Total Loans.....................	32,060	29,167	22,917	18,374	11,024	12,007
Less:						
Allowance for loan losses.......	(464)	(393)	(299)	(225)	(196)	(462)
Net loans.....................	$31,596	$28,774	$22,618	$18,149	$10,828	$11,545

</TABLE>

The following table sets forth the composition of the Corporation's loan portfolio (by percentage) for the five years ended December 31, 1995, and the six months ended June 30, 1996:

Loan Portfolio by Percentage

<TABLE>
<CAPTION>

<S> <C>	June 30, 1996	December 31, 1995	1994	1993	1992	1991
	(Dollars in thousands)					
Commercial........................	47.76%	45.65%	52.26%	41.18%	52.59%	59.40%
Real estate construction..........	12.52	12.47	10.86	9.73	8.57	10.74
Real estate mortgage..............	17.93	21.03	21.48	31.60	22.76	23.94
Installment.......................	21.79	20.85	15.40	17.49	16.08	5.92
Total Loans...................	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

</TABLE>

Real estate secured loans accounted for 30.45% of the loans outstanding at June 30, 1996. These loans are primarily secured by residential property. Commercial loans accounted for 47.76% of loans outstanding at June 30, 1996. Commercial loans are made for business purposes and may be secured by commercial real estate, demand deposits, stocks, and business equipment. Consumer installment loans accounted for 21.79% of loans outstanding at June 30, 1996. Consumer installment loans are normally loans to individuals for household, automobiles, home improvements, family, and other personal expenditures. Nonperforming loans as of June 30, 1996, totaled $64 thousand, or 0.20% of the total loan portfolio.

The following table presents the maturities or repricing periods of

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selected loans outstanding at June 30, 1996:

Maturity Schedule of Loans

<TABLE>
<CAPTION>

(Dollars in thousands)

<S>	1 year or less		1-5 years		After 5 years		Total(1)	
<C>	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
June 30, 1996	$9,627	$6,243	$16,738	-0-	$385	-0-	$26,750	$6,243

</TABLE>

----
(1) Excludes nonaccrual loans.

Asset Quality

The Corporation attempts to maintain the allowance for loan losses at a sufficient level to provide for potential losses in the loan portfolio. Loan losses are charged directly to the allowance when they occur, while recoveries are credited to the allowance. The provision for loan losses is determined periodically by senior management and lending officers based upon consideration of several factors, including changes in the character and size of the loan portfolio and related loan loss experience, a review and examination of overall loan quality which includes the assessment of problem loans, and an analysis of anticipated economic conditions in the market area. In addition, input from bank regulatory agencies that regularly review the loan portfolio as part of their examination process and advice from the Corporation's independent accountants are considered in reviewing and assessing the adequacy of the allowance for loan losses.

An analysis of the allowance for loan losses, including charge-off activity, is presented below for the periods indicated:

<TABLE>
<CAPTION>

ALLOWANCE FOR LOAN LOSSES

	SIX MONTHS ENDED JUNE 30,		DECEMBER 31,				
	1996	1995	1995	1994	1993	1992	1991
	(Dollars in thousands)						
<S> <C>							
Average total loans.................	$30,897	$24,506	$26,364	$20,997	$14,516	$10,948	$12,454
Balance, beginning of period........	$ 393	$ 299	$ 299	$ 225	$ 196	$ 462	$ 110
Less charge offs:							
Commercial........................	_	_	5	68	___	293	2,106
Real Estate.......................	_	_	__	___	___	___	___
Installment.......................	6	7	26	22	4	15	
Total Charge offs..............	6	7	31	90	4	308	2,106
Plus recoveries:							
Commercial........................	1	2	7	12	5	130	___
Real Estate.......................	__	_	_	__	___	___	___
Installment.......................	3	_	5	1	16	_	_
Total recoveries...............	4	2	12	13	21	130	0
Net (charge offs) recoveries........	(2)	(5)	(19)	(77)	17	(178)	(2,106)
Provision for loan losses...........	73	16	113	151	12	(88)	2,458
Balance, end of period.............	$ 464	$ 310	$ 393	$ 299	$ 225	$ 196	$ 462
Allowance for loan losses to period end total loans............	1.45%	1.15%	1.35%	1.31%	1.22%	1.78%	3.85%
Allowance for loan losses to nonaccrual loans..................	725.00%	107.27%	873.33%	111.11%	1,184.21%	0.00%	130.51%
Net charge-offs (recoveries) to average loans	.01%	.04%	.07%	.37%	(.12)%	1.63%	16.91%

</TABLE>

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The allowance for loan losses is maintained at a level which in management's judgment is adequate to absorb credit losses inherent in the loan portfolio, although no assurance can be given in this regard due to competitive and economic uncertainties. Management believes that the June 30, 1996 allowance for loan losses was adequate at 1.45%. Management based such estimate on the quality of assets held and the strong local economy because of: (i) high quality and (ii) a strong local economy.

A breakdown of the allowance for loan losses is provided in the following table. However, management of the Corporation does not believe that the allowance for loan losses can be fragmented by category with any precision that would be useful to investors. The breakdown of the allowance for loan losses is based primarily upon those factors discussed above in computing the allowance for loan losses as a whole. Because all of these factors are subject to change, the breakdown is not necessarily indicative of the category of future loan losses.

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES IN DOLLARS

<TABLE>
<CAPTION>

	JUNE 30,		DECEMBER 31,				
	1996	1995	1995	1994	1993	1992	1991
			(DOLLARS IN THOUSANDS)				
<S> <C>							
Commercial	$ 395	$264	$334	$278	$209	$182	$409
Real estate - construction	23	15	20	1	1	1	13
Real estate - mortgage	9	6	8	4	3	2	29
Installment	37	25	31	16	12	11	11
Total allowance for loan losses	$464	$310	$393	$299	$225	$196	$462

</TABLE>

NONPERFORMING ASSETS

The following table details information concerning nonaccrual and past due loans, as well as foreclosed assets, for the dates indicated:

<TABLE>
<CAPTION>

NONPERFORMING ASSETS

	JUNE 30,		DECEMBER 31,				
	1996	1995	1995	1994	1993	1992	1991
			(DOLLARS IN THOUSANDS)				
<S> <C>							
Nonaccrual loans	$ 64	$ 289	$ 45	$ 269	$ 19	$ 0	$ 354
Other real estate owned(1)	236	-	236	-	-	-	-
Total Nonperforming assets	$ 300	$ 289	$ 281	$ 269	$ 19	$ 0	$ 354
Loans past due 90 or more days accruing interest	$ 219	$ 270	$ 215	$ 587	$ 16	$ 247	$ 349
Allowance for loan losses to nonaccrual loans	725.00%	107.27%	873.33%	111.11%	1,184.21%	0.00%	130.51%
Nonperforming assets to period end loans and other real estate owned	0.93	1.07	0.96	1.18	0.10	0.00	2.94

</TABLE>

----

(1) The Corporation signed a contract to sell its largest piece of other real estate owned to an unrelated purchaser for cash, which is anticipated to close in October 1996. If the transaction is consummated, the Corporation will reduce its portfolio of other real estate owned by more than 90%.

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Loans are placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent 90 days or more. If interest had been accrued on these loans for the six months of 1996, the interest income would have been $3 thousand.

Noninterest Income

For the six month period ending June 30, 1996, noninterest income was $194 thousand, an increase of $93 thousand, or 92.08% compared to noninterest income of $101 thousand at June 30, 1995. For the twelve month period ended December 31, 1995, noninterest income increased to $281 thousand from $242 thousand in 1994, or 16.12%. Such increase is a direct result of the Corporation's increased volume of non-interest bearing deposits and the related fees and service charges.

Noninterest Expense

Noninterest expense increased from $685 thousand for the six month period ended June 30, 1995, to $851 thousand for the same period ended June 30, 1996. The category with the largest increase, salaries and benefits, increased $84 thousand or 25.85%, as a result of salary adjustments due to changes in positions. Noninterest expense for 1995 was $1.435 million, up 22.13% over the comparable period of 1994. Noninterest expense for 1994 was $1.175 million, up 29.26%, over the comparable period for 1993.

Income Taxes

There was no income tax expense in 1995, 1994, and 1993 due to utilization of a net operating loss carryforward. Under the Internal Revenue Code, the Corporation has net operating loss carryforwards available totaling $3.226 million at December 31, 1995. The carryforwards expire December 31, 2006. The full realization of the tax benefits associated with the carryforwards depends predominantly upon the recognition of ordinary income during the carryforwards period. Effective January 1, 1993, the Corporation adopted Statement of Financial

Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. See Note 8 to the Corporation's financial statements for related disclosures.

Deposits

The Corporation primarily uses deposits to fund its loans and investment portfolio. For the six month period ended June 30, 1996, total average deposits were $34.206 million, compared to $26.616 million for the comparable period of 1995, a 28.52% increase. For the year ended December 31, 1995, total average deposits were $28.791 million, up 25.86% from $22.876 million for 1994. Average deposits for 1993 were $16.534 million. For the first six months of 1996, average noninterest bearing demand deposits were $5.203 million, up 28.34% from $4.054 million for the comparable 1995 period. For the year ended December 31, 1995, average noninterest bearing demand deposits were $4.034 million, up 16.76% from $3.455 million during 1994 and up 80.98% from $1.909 million during 1993. The largest category of interest bearing deposits is certificates of deposit under $100,000. For the six month period ended June 30, 1996, this category increased $3.954 million, or 35.28%, to $15.162 million from $11.208 million during the comparable period of 1995. Average certificates of deposit under $100,000 were $15,162 million at June 30, 1996, $12.488 million, $7.870 million and $5.846 million for the years 1995, 1994 and 1993, respectively.

The Corporation offers individuals and small-to-medium sized businesses a variety of deposit accounts. These accounts, including checking, savings, money market, and certificates of deposit, are obtained primarily from the community that the Corporation services. Accordingly, the Corporation enjoys a stable core deposit base.

The following table details the average amount of, and the average rate paid on, the following primary deposit categories, for the periods indicated:

Average Deposits and Average Rates Paid

<TABLE>
<CAPTION>

	Six months ended June 30, 1996		Years ended December 31, 1995		1994		1993	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)							

<S> <C>

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Interest-bearing deposits:

Checking	$ 2,154	2.79%	$ 1,756	2.73%	$ 1,375	2.84%	$ 814	2.95%
Regular savings	4,823	3.32	5,009	3.15	6,543	3.24	4,721	4.09
Money market savings	3,185	3.58	2,661	3.49	2,356	3.65	2,471	3.28
Certificates of deposit:								
$100,000 and over	3,679	5.71	2,843	5.84	1,277	3.60	773	5.56
Under $100,000	15,162	5.88	12,488	5.91	7,870	5.32	5,846	5.49
Total interest-bearing deposits..	29,003	4.95%	24,757	4.86%	19,421	4.13%	14,625	4.53%
Noninterest-bearing	5,203		4,034		3,455		1,909	
Total deposits	$34,206		$28,791		$22,876		$16,534	

</TABLE>

The following is a summary of the maturity distribution of certificates of deposit in amounts of $100,000 or more as of June 30, 1996:

Maturities of CDs of $100,000 or More

	June 30, 1996	
	Amount	Percent
	(Dollars in thousands)	
Three months or less...................	$1,219	28.03%
Over three months to one year..........	1,966	45.21
Over one year to five years............	1,164	26.76
Total................................	$4,349	100.00%

For the six month period ended June 30, 1996, average certificates of deposit over $100,000 totaled $3.679 million. Average certificates of deposit in amounts of $100,000 or more were $2.843 million, $1.277 million, and $773 thousand at December 31, 1995, 1994 and 1993, respectively. As of June 30, 1996, and December 31, 1995, 1994, and 1993, average certificates over $100,000 represented 19.53%, 18.54%, 13.96%, and 11.68%, respectively, of the total certificates of deposit held on the respective dates. The Corporation competes with the major regional financial institutions for money market accounts and certificates of deposit less than $100,000. The Corporation has a relatively high level of rate sensitive assets and uses a system to adjust loan pricing to reflect its cost of funds, loan and funding maturities and loan-to-deposit ratio.

Short-Term Borrowings

The Corporation occasionally finds it necessary to purchase federal funds on a short-term basis due to fluctuations in loan and deposit levels. The Corporation had no short-term borrowings with an average balance outstanding of more than 30% of stockholders' equity for the years ended December 31, 1995 and 1994.

Liquidity

Liquidity represents an institution's ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest-bearing deposits with banks, federal funds sold, investments, and loans maturing within one year. As a result of the Corporation's management of liquid assets and the ability to generate liquidity through

liability funding, management believes that the Corporation maintains overall

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liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs.

Summary of Liquid Assets

	June 30,	December 31,		
	1996	1995	1994	1993
	(Dollars in thousands)			
Cash and due from banks	$ 3,110	$ 2,283	$ 1,789	$ 1,119
Federal funds sold	3,148	1,574	277	240
Investment securities(1)	-	448	289	902
Available-for-sale securities	1,026	774	544	1,558
Total liquid assets	$ 7,284	$ 5,079	$ 2,899	$ 3,819
Deposits and other liabilities	$38,648	$33,392	$25,438	$20,445
Ratio of liquid assets to deposits and other liabilities	18.85%	15.21%	11.40%	18.68%

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(1) Only investment securities with a maturity of one year or less are considered liquid assets for this table.

As of June 30, 1996, the Corporation's liquidity position was tight, although it had improved somewhat from its position at December 31, 1995, as management continued its strategy to maximize earning assets in order to restore previously impaired capital. Deposit growth continued to be invested almost exclusively in loans and a minimal level of temporary investments. As of June 30, 1996, the Corporation had approximately $1.026 million in available-for-sale securities at its disposal. Furthermore, the Corporation maintains a $600 thousand federal funds line with a correspondent bank, and can borrow up to 50% of its capital on an unsecured basis from the Community Bankers' Bank. In addition, should additional liquidity be required, management has the ability to sell loans to other institutions to obtain additional capital as needed.

Liquidity is monitored by the institution on several levels. The officers of the Corporation monitor liquidity on a monthly basis. In addition, the loan committee, which consists of several directors and officers, monitors the liquidity position on a biweekly basis. The results of both meetings are reviewed by the full board at its monthly meeting. The loan-to-deposit ratio is considered by management to be the key liquidity ratio. As of June 30, 1996, such ratio was 84.67%. At June 30, 1996, the Corporation had long term debt of $590 thousand and had no material commitments for capital expenditures.

Return on Equity and Assets

The following table summarizes ratios considered to be significant indicators of the Corporation's profitability and financial condition during the periods indicated:

Return on Equity and Assets

	Six Months ended June 30,	Years ended December 31,		
	1996(1)	1995	1994	1993
Return on average assets.......................	1.61%	1.31%	1.23%	0.42%
Return on average equity.......................	21.55	16.96	15.28	4.51
Average equity to average asset ratio..........	7.48	7.73	8.04	9.24

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(1) Percentages for the six months ended June 30, 1996, have been annualized.

Impact of Inflation and Changing Prices and Seasonality

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power

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of money over time due to inflation.

Virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services, since such prices are affected by inflation.

The Corporation's loans and deposits are not typically seasonal or cyclical.

Accounting Rule Changes

FASB No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, establishes standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. This Statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Statement is effective for fiscal years beginning after December 15, 1995. The Statement is not expected to have a material impact on the Corporation.

FASB No. 122, Accounting for Mortgage Servicing Rights, amends FASB No. 65, Accounting for Certain Mortgage Banking Activities, to require that a mortgage banking enterprise recognize as separate assets rights to service mortgage loans for others, however those servicing rights are acquired. A mortgage banking enterprise that acquires mortgage servicing rights through either the purchase or origination of mortgage loans and sells or securitizes those loans with servicing rights retained should allocate the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values if it is practicable to estimate those fair values. If it is not practicable to estimate the fair values of the mortgage servicing

rights and the mortgage loans (without the mortgage servicing rights), the entire cost of purchasing or originating the loans should be allocated to the mortgage loans (without the mortgage servicing rights) and no cost should be allocated to the mortgage servicing rights. The Statement is effective for transactions in fiscal years beginning after December 15, 1995. The Statement is not expected to have a material impact on the Corporation.

FASB No. 123, Accounting for Stock-Based Compensation, establishes financial accounting and reporting standards for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer's stock. Examples are stock purchase plans, stock options, restricted stock, and stock appreciation rights. This Statement also applies to transactions in which an entity issues its equity instruments to acquire goods or services from nonemployees. Those transactions must be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

This Statement defines a fair value based method of accounting for an employee stock option or similar equity instrument and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees. The fair value based method is preferable to the Opinion 25 method for purposes of justifying a change in accounting principle under APB Opinion 20, Accounting Changes. Entities electing to remain with the accounting in Opinion 25 must make pro forma disclosures of net income and, if presented, earnings per share, as if the fair value based method of accounting defined in this Statement had been applied.

The Statement is effective for fiscal years beginning after December 15, 1995. The disclosures must include the pro forma effects of other awards granted in fiscal years beginning after December 31, 1994. The Statement is not expected to have a material impact on the Corporation.

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BUSINESS

General

The Corporation is a bank holding corporation incorporated under the laws of the Commonwealth of Virginia in June 1989. The Corporation owns all of the outstanding stock of its subsidiary, The Marathon Bank ("Bank"), which was incorporated in August 1987 and acquired by the Corporation in October 1990, in accordance with the plan of exchange approved by the shareholders of the Bank in June 1990. The Corporation is headquartered in Frederick County, Virginia. The Corporation operates three offices. The original branch is located in Frederick County. The second branch, which opened in August of 1993, is located in the Town of Front Royal, Virginia. The third branch, which opened in February of 1995, is located in the City of Winchester, Virginia. Collectively, the three branches service the Northern Shenandoah Valley, which is comprised of Frederick County, Shenandoah County, Warren County, Clarke County, the City of Winchester, and the Town of Front Royal.

The Corporation is engaged in the business of offering banking services to the general public. It offers checking accounts, savings and time deposits, and commercial, real estate, personal, home improvement, automobile and other installment and term loans. It also offers travelers checks, safe deposit, collection, notary public, credit cards and other customary bank services. The Corporation is also becoming increasingly involved in the origination and sale of loans in the secondary mortgage market.

The Corporation is the only independent community bank headquartered in the City of Winchester or Frederick County, Virginia. The Corporation's primary market is the Northern Shenandoah Valley, which includes Frederick County, where, based on total financial institution deposits at June 30, 1995, it was the fourth largest financial institution with approximately 11% of the market, Warren County, including the Town of Front Royal, where, based on total financial institution deposits at June 30, 1995, it was the ninth largest financial institution with approximately 4% of the market. The newest branch is located in the City of Winchester, the largest market in the four county area of Frederick, Warren, Shenandoah and Clarke Counties. Winchester and Front Royal are located at or near the intersections of I-81 and I-66 on the western fringe of the greater Washington-Baltimore Metropolitan Statistical Area, the fourth largest market in the United States.

At June 30, 1996, the Corporation had $41.611 million in assets, $31.596 million in net loans, $37.866 million in deposits, and $2.963 million in stockholders' equity. It also had, at that date, a tax loss carryforward of $3.226 million. During the year ended December 31, 1995, the Corporation's net income grew 32.39% to $421 thousand from $318 thousand in 1994. In the six months ended June 30, 1996, the Corporation's net income increased 71.75% to $304 thousand from $177 thousand for the comparable period in 1995, while total assets increased 28.96% to $41.611 million at June 30, 1996 over the June 30, 1995 level. The annualized return on average assets and equity for the six months ended June 30, 1996 were 1.61% and 21.55%, respectively. Improvements in the Bank's earnings and size have been consistent since the employment by the Corporation of the current chief executive officer in 1992.

Credit Policies

The Corporation employs extensive written policies and procedures to enhance management of credit risk. The loan portfolio is managed under a specifically defined credit process. This process includes formulation of portfolio management strategy, guidelines for underwriting standards and risk assessment, procedures for on-going identification and management of credit deterioration, and regular portfolio reviews to estimate loss exposure and to ascertain compliance with the Corporation's policies. The largest unsecured individual lending authority currently granted by the Corporation is $100,000. Loan applications in excess of $50,000 are reviewed by the Loan Committee on a weekly basis. The Loan Committee consists of the Chief Executive Officer and six additional directors.

A major element of credit risk management is the diversification of risk. The Corporation's objective is to maintain a diverse loan portfolio to minimize the impact of any single event or set of circumstances. Concentration parameters are based upon individual risk factors, policy constraints, economic conditions, collateral, and products. The Corporation, as a matter of policy, generally does not extend credit to any single borrower or group of related borrowers in excess of $400,000. The Corporation generally does not make loans

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outside its market area, except for loan participations, unless the borrower has an established relationship with the Corporation and lives and conducts his principal business operations within the Corporation's market area. Consequently, the Corporation and its borrowers are directly affected by the economic conditions prevailing in its market area.

Lending Activities

The Corporation's primary market focus is on making loans to small businesses and consumers in its local market area. Business and consumer installment loans secured by real estate represent the largest segment of the Corporation's loan portfolio. In addition, the Corporation also provides a wide range of business and consumer installment loans that are not secured by real property. The Corporation's lending activities are principally directed to its defined market area in the Northern Shenandoah Valley.

Commercial Business Lending. The Corporation's commercial loans are made primarily to local service and retail oriented businesses for a variety of purposes, including revolving lines of credit, working capital loans, equipment financing loans, letters of credit, construction loans, and "mini-permanent" financing of commercial real estate. Pricing on commercial loans is generally tied to the depository relationship and/or the perceived risk involved in the credit.

The Corporation normally looks to the borrower's cash flow and/or earnings as the principal source of repayment for commercial business loans, and most of these loans are both secured and personally guaranteed by the principals of such businesses.

Real Estate Construction Lending. At June 30, 1996, real estate construction loans comprised $4.015 million, or 12.52%, of the Corporation's total loan portfolio.

Mortgage Lending. The Corporation's real estate loan portfolio, a significant portion of which consists of business related loans secured by the owner's residence or commercial property, was approximately 30.45% of total loans at June 30, 1996. The mortgage portfolio consists primarily of loans for individual purposes with 15- to 25-year amortization schedules that mature with a balloon payment on the third or fifth anniversary of the loan.

Consumer Installment Lending. The Corporation currently offers most types of consumer time and installment loans, including automobile loans and home equity lines of credit. The Corporation also extends other consumer credit through its overdraft protection program. At June 30, 1996, the Corporation's consumer installment loans, including home equity lines, were 21.79% of the total loan portfolio. The performance of the consumer installment loan portfolio is directly tied to and dependent upon the general economic conditions in the Corporation's market area.

Credit Policies and Administration. The Corporation has adopted a comprehensive lending policy which includes stringent underwriting standards for all types of loans and pricing guidelines. In an effort to manage risk, all credit decisions in excess of the officer's lending authority must be approved prior to funding by the Loan Committee. Management believes that it employs experienced lending officers, secures appropriate collateral, and carefully monitors the financial conditions of its borrowers and the concentration of such loans in the Corporation's portfolio.

Market Area

The Corporation has three branches located in the Northern Shenandoah Valley. The Shenandoah Valley is located on the I-81 corridor in Northwestern Virginia, and borders on the Washington-Baltimore Metropolitan Statistical Area, the fourth largest market in the United States. The Northern Shenandoah Valley is the home of major manufacturing facilities of 17 Fortune 500 companies. In addition, Warren County is becoming a significant center, in the Mid-Atlantic region, for manufacturing and distribution due to its proximity to the Virginia Inland Port. Pen-Tab Inc. opened a manufacturing and distribution center in the first quarter of 1996 which employs over 270 persons. Toray, Inc. recently broke ground on a $120 million full service manufacturing plant which will employ 120 persons in 1997 and over 500 persons by the year 2000. Major employers in the four county area include Valley Health Systems, Inc., Crown Cork and Seal, Automotive Industries Inc., National Fruit Products, Inc., Rubbermaid Commercial Products, General Electric, AT&T Communications, duPont, Inc. and O'Sullivan Corporation. The Corporation's headquarters and a branch office are located in Frederick County. The population of the City of Winchester and Frederick County is approximately 75,000. The local economy is driven by the manufacturing and service industries, with over 30% of the area's workforce engaged in

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manufacturing. The Corporation's third office is located in Front Royal, Virginia in Warren County. The combined population of Front Royal and Warren County is approximately 40,000. The principal employers are in the manufacturing service industries as well as state and local government. The Corporation also services Shenandoah and Clarke Counties. The approximate population of such areas are 33,000 and 12,000, respectively.

Competition

The banking business in the Northern Shenandoah Valley (the counties of Frederick, Clarke, Shenandoah, and Warren, Virginia and the City of Winchester), the area served by the Corporation is highly competitive with respect to both loans and deposits. In the Corporation's primary service area, there are approximately eleven commercial banks and savings and loans (including six large, Virginia-wide and national banks with multiple offices); offering services ranging from deposits and real estate loans to full service banking. The Corporation is the newest and smallest commercial bank in its service area, in addition, there can be no assurance that other financial institutions, with substantially greater resources than the Corporation, will not establish operations in the service area.

Properties

The Corporation's office is located at 4095 Valley Pike, Winchester, Virginia, in property owned by the Corporation.

In July 1996, the Bank's branch located in the Town of Front Royal moved into a newly constructed building located in the Post Office Plaza at 300 Warren Avenue. The Corporation leased the property from a related party under a 20 year lease with no renewal options. See "Management - Indebtedness and Other Transactions."

On February 13, 1995, the Corporation opened its Winchester Branch at 1041 Berryville Avenue in the City of Winchester, Virginia. The Corporation has a five year lease, with two five year options.

Employees

At June 30, 1996, the Corporation had the equivalent of 29 full-time employees. None of its employees is represented by any collective bargaining unit. The Corporation considers relations with its employees to be good.

Legal Proceedings

In the course of its operations, the Corporation is party to various legal proceedings. The Corporation does not believe that the outcome of these lawsuits, individually or in the aggregate, will have a material adverse effect on the Bank's business, financial position, or results of operations.

Supervision and Regulation

The Bank is subject to state and federal banking laws and regulations which impose specific requirements or restrictions and provide for general regulatory oversight with respect to virtually all aspects of its operations. The following is a brief summary of certain statutes and regulations affecting the Bank. This summary is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below, and it is not intended to be an exhaustive description of all laws applicable to the business of the Bank. Any change in applicable laws or regulations may have a material effect on the business and prospects of the Corporation.

State Chartered Banks. The Bank is a state-chartered bank, organized under Virginia law. It is also a member of the Federal Reserve System and, therefore, is supervised and examined by the Federal Reserve, its primary federal regulator. The Federal Reserve and Bureau of Financial Institutions ("BFI") conduct regular examinations of the Bank, reviewing the adequacy of its allowance for loan losses, quality of loans and investments, propriety of management practices, compliance with laws and regulations and other aspects of its operations. In addition to these regular examinations, the Bank must furnish the Federal Reserve with quarterly reports containing detailed financial statements and schedules. The Federal Deposit Insurance Corporation ("FDIC"), which provides deposit insurance, also has authority to examine and regulate the Bank.

Federal and state banking laws and regulations govern all areas of the operations of the Bank, including maintenance of cash reserves, loans, mortgages, maintenance of minimum capital, payment of dividends, and

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establishment of branch offices. Federal and state bank regulatory agencies also have the general authority to eliminate dividends paid by insured banks if such payment is deemed to constitute an unsafe or unsound practice. The Federal Reserve has authority to impose penalties, initiate civil administrative actions, and take other steps to prevent the Bank Subsidiaries from engaging in unsafe or unsound practices. In this regard, the Federal Reserve has adopted capital adequacy requirements applicable to its member banks. See "Supervision and Regulation of the Corporation - Capital Requirements" below.

Supervision and Regulation of the Corporation

General. As a bank holding company, the Corporation is subject to state and federal banking and bank holding company laws and regulations which impose specific requirements or restrictions and provide for general regulatory oversight with respect to virtually all aspects of its operations. The following is a brief summary of certain statutes and regulations affecting the Corporation. This summary is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below, and is not intended to be an exhaustive description of all laws applicable to the Corporation's operations. Any change in applicable laws or regulations may have a material effect on the business and prospects of the Corporation.

Bank Holding Companies. As a bank holding company registered under the Bank Holding Company Act ("BHC Act"), the Corporation is subject to regulation by the Federal Reserve. The Federal Reserve has jurisdiction under the BHC Act to approve any bank or nonbank acquisition, merger or consolidation proposed by a bank holding company. The BHC Act generally limits the activities of a bank holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity which is so closely related to banking or to managing or controlling banks as to be a proper incident thereto.

The BHC Act formerly prohibited the Federal Reserve from approving an application from a bank holding company to acquire shares of a bank located outside the state in which the operations of the holding company's banking subsidiaries were principally conducted, unless such an acquisition was specifically authorized by statute of the state in which the bank whose shares were to be acquired was located. However, under recently enacted federal legislation, the restriction on interstate acquisitions was abolished effective September 29, 1995, and bank holding companies from any state may now acquire banks and bank holding companies located in any other state. Banks also will be able to branch across state lines effective June 1, 1997, provided certain conditions are met, including

that applicable state law must expressly permit such interstate branching. Under Virginia law effective July 1, 1995, Virginia banks can branch across state lines in those states with which Virginia has reciprocal agreements.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance fund in the event the depository institution becomes in danger of default or in default. For example, under a policy of the Federal Reserve with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. In addition, the "cross-guarantee" provisions of federal law require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated by either the Savings Association Insurance Fund ("SAIF") or the Bank Insurance Fund ("BIF") as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. The FDIC may decline to enforce the cross-guarantee provisions if it determines that a waiver is in the best interest of the SAIF or the BIF or both. The FDIC's claim for damages is superior to claims of shareholders of the insured depository institution or its holding company but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institutions.

The Federal Deposit Insurance Act also provides that amounts received from the liquidation or other dissolution of any insured depository institution by any receiver must be distributed (after payment of secured claims) to pay the deposit liabilities of the institution prior to payment of any other general or unsecured senior liability, subordinated liability, general creditor or shareholder. This provision would give depositors a preference over general and subordinated creditors and shareholders in the event a receiver is appointed to distribute the assets of any of the Corporation's subsidiaries.

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The Corporation is registered under the bank holding company laws of Virginia. Accordingly, the Corporation and the Bank are also subject to regulation and supervision by the BFI.

Capital Requirements. The Federal Reserve, the Office of the Comptroller of the Currency and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, those regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels because of its financial condition or actual or anticipated growth. Under the risk-based capital requirements of these federal bank regulatory agencies, the Bank is required to maintain a minimum ratio of total capital to risk-weighted assets of at least 8%. At least half of the total capital is required to be "Tier 1 capital," which consists principally of common and certain qualifying preferred shareholders' equity, less certain intangibles and other adjustments. The remainder, "Tier 2 capital," consists of a limited amount of subordinated and other qualifying debt (including certain hybrid capital instruments) and a limited amount of the general loan loss allowance. The Tier 1 and total capital to risk-weighted asset ratios of the Corporation as of June 30, 1996 were 9.20% and 10.45%, respectively, exceeding the minimums required.

In addition, each of the federal regulatory agencies has established a minimum leverage capital ratio (Tier 1 capital to average tangible assets). These guidelines provide for a minimum ratio of 3% for banks and bank holding companies that meet certain specified criteria, including that they have the highest regulatory examination rating and are not contemplating significant growth or expansion. All other institutions are expected to maintain a leverage ratio of at least 100 to 200 basis points above the minimum. The leverage ratio of the Bank as of June 30, 1996, was 7.88%. The guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

The following table sets forth in detail the various capital ratios of the Bank at the dates indicated:

Analysis of Capital

	June 30,		December 31,		
	1996	1995	1995	1994	1993
			(Dollars in thousands)		
Tier 1 Capital:					
Noncumulative preferred stock	$	$ 1,003	$ -	$ 1,003	$ 1,003
Common stock	1,306	1,079	1,306	1,079	1,069
Capital surplus	5,110	4,199	5,110	4,199	4,159
Retained earnings (deficit)	(3,443)	(3,852)	(3,747)	(4,029)	(4,297)
Less: Intangibles	-	-	-	(5)	(18)
Total Tier 1 capital	$ 2,973	$2,429	$ 2,669	$ 2,247	$ 1,916
Tier 2 Capital:					
Allowance for loan losses(1)	404	310	$ 340	$ 280	$ 225
Total risk-based Capital	$ 3,377	$2,739	$3,009	$ 2,527	$ 2,141
Risk-weighted assets	$32,309	$26,419	$28,390	$22,380	$17,961
Capital Ratios:					
Tier 1 risk-based capital ratio	9.20%	9.19%	9.40%	10.04%	10.67%
Total risk-based capital ratio	10.45	10.37	10.60	11.29	11.92
Tier 1 capital to average adjusted total assets	7.88	8.10	8.32	8.69	9.99

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(1) Limited to 1.25% of risk weighted assets.

Deposit Insurance. The deposits of the Bank are insured up to $100,000 per insured depositor (as defined by law and regulation) by the FDIC through the BIF. The BIF are administered and managed by the FDIC. As insurer, the FDIC is authorized to conduct examinations of and to require reporting by SAIF and BIF-insured institutions. FIRREA also authorizes the FDIC to prohibit any SAIF and BIF-insured institution from engaging in any activity that the FDIC determines by regulation or order to pose a serious threat to the SAIF and BIF.

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The FDIC also has the authority to initiate enforcement actions against savings institutions, after first giving the OTS an opportunity to take such action.

From time to time, there are various proposals that involve increasing the deposit insurance premiums paid by banks and/or savings institutions. The Corporation is unable to predict whether or to what extent the rates that the Bank pays for federal deposit insurance may increase in future periods as a result of such proposals. Such increases would adversely affect its operations.

The FDIC may terminate the deposit insurance of any depository institution, including the Bank's, if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, order or any condition imposed in writing by the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If deposit insurance is terminated, the deposits at the institution at the time of termination, less subsequent withdrawals, shall continue to be insured for a period from six months to two years, as determined by the FDIC. Management is aware of no existing circumstances that could result in termination of the deposit insurance of the Bank.

On December 15, 1994, the Federal Reserve Board, the Office of Thrift Supervision, the Office of the Controller of the Currency ("OCC"), and the FDIC (collectively the "agencies") issued a final rule entitled, Risk- Based Capital Standards; Concentration of Credit Risk and Risks of Nontraditional Activities. The final rule amends the risk-based capital standards by explicitly identifying concentrations of credit risk and certain risks arising from nontraditional activities, as well as an institution's ability to manage these risks, as important factors in assessing an institution's overall capital adequacy. While no quantitative measure of such risk is included in the final rule, to the extent appropriate, the agencies will issue examination guidelines on new developments in nontraditional activities or concentrations of credit to ensure that adequate account is taken of the risks of these activities. Moreover, the agencies also believe that institutions identified through the examination process as having significant exposure to concentration of credit risk or as not adequately managing concentration risks should hold capital in excess of the regulatory minimums. Therefore, due to the subjective nature of this final rule, the Corporation is unable to determine what effect, if any, this rule may have on regulatory capital requirements.

On August 2, 1995, the OCC, the Federal Reserve Board, and the FDIC (collectively the "banking agencies") issued a final rule entitled, Risk-Based Capital Standards; Interest Rate Risk. The final rule implements minimum capital standards for interest rate risk exposures in a two-step process. The final rule implements the first step of that process by revising the capital standards of the banking agencies to explicitly include a bank's exposure to declines in the economic value of its capital due to changes in interest rates as a factor that the banking agencies will consider in evaluating a bank's capital adequacy. The banking agencies intend to implement this rule on a case-by-case basis during the examination process. The second step of the banking agencies' process will be to issue a proposed rule that would establish an explicit minimum capital charge for interest rate risk, based on the level of the bank's measured interest rate risk exposure. Due to the subjective nature of the first phase of this final rule, the Corporation is unable to determine what effect, if any, this rule may have on its regulatory capital requirements.

On November 16, 1995, the Federal Reserve Board issued guidelines entitled, Federal Reserve Guidelines for Rating Risk Management at State Member Banks and Bank Holding Companies (the "Guidelines"). The Guidelines specify that principles of sound management should apply to the entire spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational risk and that, for state member banks, a single numerical rating for risk management should be provided as part of the examination process. The Guidelines also specify that examination reports should make reference to the types and nature of corrective actions that need to be taken by institutions to address noted risk management and internal control deficiencies. Where appropriate, institutions should also be advised that the Federal Reserve Board will initiate supervisory actions if the failure to separate critical operational duties creates the potential for serious losses or if material deficiencies or situations that threaten the safe and sound conduct of their activities are not adequately addressed in a timely manner. Due to the subjective nature of the risk-management evaluation, the Corporation is not able to determine what effect, if any, this rule may have on the operation of the Corporation.

Community Reinvestment Act. The federal supervisory agencies share

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authority to implement regulations under the Community Reinvestment Act of 1979, as amended ("CRA"). The general purpose of the CRA is to encourage lenders, while operating safely and soundly, to meet the credit needs of their communities. The CRA specifically directs regulators, when examining a lender, to assess the lender's record of helping to meet the credit needs of its entire community, including low and moderate-income neighborhoods. For example, the regulators will evaluate and take into account a lender's record of meeting its community credit needs when evaluating a lender's application for creation of a new branch. The Bank has always had a "Satisfactory" rating with respect to their compliance with the CRA. The Corporation itself has not been examined or received a CRA rating.

As a result of a Presidential initiative, each of the federal banking agencies, including the FDIC, issued a notice of proposed rule making in October of 1994 to replace the current CRA assessment system with a new evaluation system that would rate institutions based on their actual performance (rather than efforts) in meeting community credit needs. The final rule retains, to a significant extent, the principles and structures underlying the

1994 proposal and will be phased in over 1996 and 1997. The Corporation is currently studying the new CRA regulations and determining whether the regulations would require changes to the CRA action plans of the Bank.

Governmental Monetary Policies and Economic Controls. The Corporation and the Bank are affected by monetary policies of regulatory authorities, including the Federal Reserve, which regulates the national money supply in order to mitigate recessionary and inflationary pressures. Among the techniques available to the Federal Reserve are engaging in open market transactions in United States Government securities, changing the discount rate on bank borrowings, and changing reserve requirements against bank deposits. These techniques are used in varying combinations to influence the overall growth of bank loans, investments and deposits. Their use may also affect interest rates charged on loans or paid on deposits. The effect of governmental policies on the earnings of the Corporation cannot be predicted.

MANAGEMENT

The following table sets forth the names, ages and positions of the Corporation's Directors and Executive Officers.

Name	Age	Position	Director of the Bank/Corporation Since
Class I			
Frank H. Brumback	71	Chairman of the Board	1987
Robert W. Claytor	48	Director	1987
Clifton L. Good	59	Director	1987
Donald L. Unger	54	Director, President and Chief Executive Officer	1992
Class II			
Joseph W. Hollis	42	Director	1987
Gerald H. Kidwell	74	Director	1987
Lewis W. Spangler	54	Director	1987
Thomas W. Grove	56	Director	1992
Class III			
W. Houston Board, III	49	Director	1987
Ralph S. Gregory	57	Director	1987

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George R. Irvin, Jr.	60	Director	1987

</TABLE>

Class I Directors

Frank H. Brumback is 71 years old and has served as a director of the Corporation since 1989 and a director of the Bank since 1987. He is Chairman of the Bank and the Corporation; Vice President of Woodbine Farms, Incorporated (orchardist) in Winchester, Virginia, and President of BGW, Incorporated (real estate) in Winchester, Virginia

Robert W. Claytor is 48 years old and has served as a director of the Corporation since 1989 and of the Bank since 1987. He is President and General Manager of H. N. Funkhouser & Company (petroleum distributor) in Winchester, Virginia.

Clifton L. Good is 59 years old and has served as a director of the Corporation since 1989 and of the Bank since 1987. He is retired and the former President of Clifton L. Good Realty, Incorporated in Front Royal, Virginia.

Donald L. Unger is 54 years old and has served as a director of the Corporation since 1992 and of the Bank since 1992. He has served as President and Chief Executive Officer of The Marathon Bank and of the Corporation since April 1992.

Class II Directors

Joseph W. Hollis is 42 years old and has served as a director of the Corporation since 1989 and of the Bank since 1987. He is President of B. J. Sager (beer distributor) in Winchester, Virginia.

Gerald H. Kidwell is 74 years old and has served as a director of the Corporation since 1989 and of the Bank since 1987. He is a farmer and former budget analyst with the federal government in Washington, D.C.

Lewis W. Spangler is 54 years old and has served as a director of the Corporation since 1989 ard of the Bank since 1987. He is Vice President of Jones & Frank Corporation (petroleum equipment sales and distribution) in Winchester, Virginia; and Vice President and Manager of Oil Equipment Properties (real estate in Winchester, Virginia).

Thomas W. Grove is 56 years old and has served as a director of the Corporation since 1992 and of the Bank since 1993. He is President of T. W. Grove Construction, Inc. in Front Royal, Virginia.

Class III Directors

W. Houston Board, III is 49 years old and has served as a director of the Corporation since 1989 and of the Bank since 1987. He is President and a Director of B.T.B., Inc. (tire dealer) in Front Royal and Winchester, Virginia.

Ralph S. Gregory is 57 years old and has served as a director of the Corporation since 1989 and of the Bank since 1987. He is President of Gregory's Incorporated (commercial contractor) in Stephens City, Virginia.

George R. Irvin, Jr. is 60 years old and has served as a director of the Corporation since 1989 and of the Bank since 1987. He is retired and the former chairman of Irvin, Incorporated (wholesale candy and tobacco distributor) in Edinburg, Virginia.

Board Committees

The Corporation's Board of Directors meets monthly and also holds an organizational meeting following the conclusion of the Annual Meeting of Stockholders. Special meetings are held when necessary. The Board of Directors met 12 times during the fiscal year ended December 31, 1995. Each incumbent director attended at least 75% of the aggregate of the number of meetings of the Board and the number of meetings held by all committees on which he served.

The Board of Directors of the Corporation has standing Audit, Loan and Personnel Committees.

The Audit Committee is responsible for receiving the audit and examination reports of the internal accounting staff, the independent public accountants and the banking examiners. The Audit Committee held five meetings in 1995. The present members of the Audit Committee are Messrs. Hollis, Board, Good and Kidwell.

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The Loan Committee considers new loan applications which are in excess of individual officer limits and monitors (with management) the Corporation's loan portfolio. The Loan Committee held 36 meetings in 1995. The present members of the Loan Committee are Messrs. Claytor, Good, Gregory, Brumback, Spangler, Grove, Kidwell and Unger.

The Personnel Committee is responsible for supervising, hiring and setting compensation levels for the Bank's personnel. The Personnel Committee met two times in 1995. The present members of the Personnel Committee are Messrs. Irvin, Claytor, Hollis, Spangler and Unger.

Indebtedness and Other Transactions

Certain directors and executive officers of the Corporation, members of their immediate families and corporations, partnerships and other entities with which such persons are associated are customers of the Corporation. As such, they had transactions in the ordinary course of business with the Corporation during the fiscal year ended December 31, 1995, and will have additional transactions with the Corporation in the future. All loans and commitments to lend included in such transactions were made in the ordinary course of business and upon substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing for comparable transactions with the general public. In the opinion of management, none of the transactions involved more than the normal risk of collectibility or presented other unfavorable features. At June 30, 1996, loans from the Corporation to all executive officers and directors, their immediate families and/or affiliated companies in which they are principals amounted to approximately $1.460 million. This amount represented approximately 49.27% of the stockholders' equity of the Corporation as of June 30, 1996.

On July 1, 1996, the Corporation entered into a 20 year property lease with Post Office Plaza, L.C. ("Related Party"), a limited liability corporation, which is owned 25% by Donald L. Unger, President, Chief Executive Officer and a director of the Corporation, and 25% by Thomas W. Grove, a director of the Corporation. The lease provides for fixed annual payments in the amount of $46,153 for the first five years of the term, after which payments increase annually in conjunction with the consumer price index. Prior to the consummation of such lease, the Corporation was permitted to finance and construct a branch facility on such property with the understanding that upon completion of the construction the Corporation would enter into a long term lease with the Related Party and the Related Party would reimburse the Corporation for all direct costs incurred with respect to the construction of the branch. As of June 30, 1996, the project was substantially complete, the Corporation had invested $237,365 in construction costs for which the Related Party had verbally committed to reimburse the Corporation upon consummation of the lease.

Prior to the execution of the aforementioned Post Office Plaza lease, the Corporation maintained a portable branch facility on property owned by the Related Party. The Corporation paid $500 per month to the Related Party for such use.

Directors' Compensation

The Corporation's Directors receive a fee of $250 per meeting for their services. Committee members receive $35 per meeting as compensation for their services.

Executive Compensation

The following table presents information concerning the annual and long-term compensation of Donald L. Unger who was, at December 31, 1995, the Corporation's chief executive officer, who is the only executive officer who received cash compensation in excess of $100,000 in 1995. This table presents compensation for services rendered in all capacities to the Corporation in 1995, 1994 and 1993.

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Summary Compensation Table

Name and Principal	Fiscal Year	Annual Compensation: Salary	Bonus	Other Annual Compensation(2)	All Other Compensation(1)
Donald L. Unger	1995	$100,000	$7,000	$14,600	$2,000
President and CEO	1994	100,000	7,000	14,600	2,000
	1993	100,000	0	14,600	0

(1) Reflects the Corporation's matching contribution under its 401(k) retirement plan.
(2) Represents deferred compensation payable to Mr. Unger upon termination of employment, payment of Mr. Unger's country club dues and the value of the use of a company vehicle.

The following table presents, for the executive officer listed in the Summary Compensation Table, information regarding (i) his exercise of stock options in 1995 and (ii) the number and value of all his unexercised stock options at December 31, 1995.

Aggregated Option Exercises in 1995 and December 31, 1995 Option Values

Name	Shares Acquired on Exercise (#)	Value Realized Upon Exercise ($)	Number of Unexercised Options at December 31, 1995(#) Exercisable/ Unexercisable	Value of Unexercised in-the-money Options at December 31, 1995($) Exercisable/ Unexercisable(1)
Donald L. Unger	0	$0	500/0	$0

(1) Based upon a market value of $5.00 per share.

Chief Executive Officer Employment Agreement and Incentive Bonus Plan

The Corporation and Donald L. Unger, President and Chief Executive Officer, entered into a written employment agreement on April 13, 1992, to be effective as of April 13, 1992 ("Unger Employment Agreement"). The Unger Employment Agreement provides that Mr. Unger will serve on the Board of Directors of the Corporation, subject to shareholder election, until his employment ends. Under the terms of the Unger Employment Agreement, Mr. Unger receives an annual salary of $100,000, together with certain other customary benefits. In the event of a change of control of the Corporation (as defined in the Unger Employment Agreement), Mr. Unger will receive a one time cash payment equal to his annual salary at the date of change of control multiplied by the percentage by which the Corporation's appraised value exceeds its book value. Such payment is not to exceed 300% of Mr. Unger's annual salary at the date of change in control.

1996 Employee and Director Stock Option Plan

The Board of Directors of the Corporation has approved the 1996 Employee and Director Stock Option Plan (the "Plan"), subject to approval of the Corporation's shareholders at their 1997 Annual Meeting. The Plan will permit the issuance of stock options to directors and key employees in an aggregate amount not to exceed 10% of the outstanding common stock of the Corporation, and in no event to exceed 350,000 shares during the term of the Plan. Options will expire ten years after the date of grant.

Under the Plan, each non-employee director of the Corporation will be granted options to purchase 10,000 shares of the Corporation's common stock at the Public Offering price, of which options to purchase 5,000 shares will be immediately exercisable upon shareholder approval of the Plan, and the remaining 5,000 shares will vest at the rate of 1,000 shares per year, commencing in 1998 and continuing through 2002.

In addition, certain key employees of the Bank, including Donald L. Unger, President and Chief Executive Officer, will be granted options under the Plan to purchase shares at the Public Offering price. Mr. Unger will receive options to purchase 22,500 shares, of which options to purchase 10,000 shares will be immediately exercisable upon shareholder approval of the Plan, and the remaining 12,500 of which will become exercisable at the rate of 2,500 shares per year, commencing in 1998 and continuing through 2002.

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Employee Benefit Plans

The Corporation has adopted a plan that is qualified under Section 401(k) of the Internal Revenue Code for the benefit of its eligible employees. Employees are not required to contribute to the plan but may contribute, subject to the statutory maximum, from their annual salary before taxes. Employees who have attained age 21 and completed six months of service are eligible to participate in the plan beginning on the January 1 or July 1 following their six-month anniversary. The Corporation made a contribution to the plan for the year ending December 31, 1995 in the amount of $9,601. No contributions were made for the years ending December 31, 1994 and 1993.

Security Ownership of Management

The following table sets forth for (i) each director and executive officer of the Corporation, (ii) each beneficial owner of 5% or more of the outstanding shares of the Corporation's Common Stock, and (iii) all directors and executive officers of the Corporation as a group: (1) the number of shares of the Corporation's Common Stock beneficially owned on June 30, 1996 and (2) the percentage of ownership of outstanding shares of the Bank's Common Stock on said date. All of the Corporation's directors and executive officers receive mail at the Corporation's principal executive office at 4095 Valley Pike, Winchester, Virginia 22602.

<TABLE>
<CAPTION>

Name of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percent of of Class
W. Houston Board, III	19,660	2.09%
Frank H. Brumback	35,323(2)	2.70
Robert W. Claytor	44,679(3)	3.42
Clifton L. Good	49,363(4)	3.78
Ralph S. Gregory	69,547(5)	5.32
Thomas W. Grove	8,520	0.66
Joseph W. Hollis	57,951(6)	4.40
George R. Irvin, Jr.	54,012(7)	4.55
Gerald H. Kidwell	55,029(8)	4.21
Lewis W. Spangler	39,267(9)	3.01
Donald L. Unger	4,019(10)	0.31
Beneficial ownership of Common Stock; by all directors and executive officers as a group (11 persons)	450,014	34.45

</TABLE>

(1) In calculating the number of shares of Common Stock which are beneficially owned (and thus the percentage of Common Stock beneficially owned), a person is deemed to own Common Stock if that person has the right to acquire beneficial ownership of Common Stock within sixty (60) days through the exercise of any option, warrant or right, or through the conversion of any security. Accordingly, none of the options granted under the 1996 Employee and Director Stock Option Plan are included in the listed shares because the options are subject to shareholder approval of the Plan at the shareholder's 1997 Annual Meeting. See "--1996 Employee and Director Stock Option Plan."

(2) Includes 16,802 shares held jointly.

(3) Includes 34,869 shares held by, or jointly with, spouses, children or trusts.

(4) Includes 40,966 shares held by, or jointly with, spouses, children or trusts or Clifton L. Good Realty, Incorporated.

(5) Includes 58,021 shares held by, or jointly with, spouses, children or trusts.

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(6) Includes 39,276 shares held by, or jointly with, spouses, children or trusts.
(7) Includes 1,110 shares held by, or jointly with, spouses, children or trusts.
(8) Includes 54,020 shares held by, or jointly with, spouses, children or trusts.
(9) Includes 402 shares held by, or jointly with, spouses, children or trusts.
(10) Includes 19 shares held by, or jointly with, spouses, children or trusts.

Unless otherwise indicated in the footnotes above, the individuals named above have sole voting and dispositive powers over the shares beneficially owned by them.

DESCRIPTION OF CAPITAL STOCK

Authorized and Outstanding Capital Stock

The Corporation's Articles of Incorporation authorize 20,000,000 shares of Common Stock, par value $1.00, of which 1,306,303 shares were issued and outstanding on June 30, 1996. The Articles of Incorporation also authorize 1,000,000 shares of preferred stock, no par value, of which no shares were issued and outstanding at June 30, 1996.

Characteristics of Common Stock

Certain characteristics of the Corporation's Common Stock are summarized below:

Dividend Rights. The Corporation may pay dividends as declared from time to time by the Board of Directors out of funds legally available therefor, subject to certain restrictions imposed by federal and state laws. See "Business - Supervision and Regulation - Limits on Dividends and Other Payments." The holders of Common Stock are entitled to receive and share equally in any dividends as may be declared by the Board of Directors.

Voting Rights. In all elections of directors, each stockholder has the right to cast one vote for each share of Common Stock owned by him and is entitled to vote for as many persons as there are directors to be elected. Stockholders of the Corporation do not have cumulative voting rights. On any other question to be determined by a vote of shares at any meeting of stockholders, each stockholder shall be entitled to one vote for each share of Common Stock owned by him and entitled to vote.

Liquidation Rights. Upon liquidation, after payment of all creditors, including without limitation the liquidation preference per share of preferred stock, if any is outstanding, the remaining assets of the Corporation would be distributed to the holders of the Common Stock on a pro rata basis.

Preemptive Rights. Holders of Common Stock have no preemptive rights with respect to the issuance of additional shares of Common Stock.

Calls and Assessments. All Common Stock outstanding is fully paid and nonassessable.

Reports to Stockholders. The Corporation furnishes its stockholders with annual reports, including audited financial statements, as well as quarterly reports containing unaudited financial information.

Transfer Agent. The Corporation acts as its own transfer agent.

Characteristics of Preferred Stock

The Board of Directors may determine the preferences, limitations, and relative rights, to the extent permitted by the Virginia Stock Corporation Act, of any class or series of shares of Preferred Stock before the issuance of any shares of that class or series.

Warrants to Acquire Common Stock

As part of the recapitalization of the Corporation in 1992, the Corporation, in private placements, issued two rounds of Common Stock at $5.00 per share, convertible Preferred Stock convertible into Common Stock at $5.00 per share (which has since been converted) and warrants to purchase Common Stock at $5.00 per share. At

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June 30, 1996, there were warrants to purchase 200,688 shares of Common Stock outstanding which are exercisable through June 30, 1997.

Limitations on Liability of Directors

Section 13.1-692.1 of the Virginia Stock Corporation Act ("Virginia Act") authorizes a Virginia corporation to reduce or eliminate the damages that can be assessed against an officer or director arising out of a single transaction. The Corporation's bylaws provide that no member of the Corporation's Board of Directors shall be liable for any amount in any proceeding brought against him or her as a director. The Virginia Act provides that the liability of a director may not be limited if the director engages in willful misconduct or a knowing violation of the criminal law or of any federal or state securities law, including any claim of unlawful insider trading or manipulation of the market for any security.

Indemnification of Directors

Sections 13.1-697 and 13.1-698 of the Virginia Act set forth certain provisions regarding the indemnification of directors. Generally, these provisions of the Virginia Act allow a corporation to indemnify a director if: (i) he conducted himself in good faith; (ii) he believed (a) in the case of conduct in his official capacity, that his conduct was in the corporation's best interests, and (b) in all other cases, that his conduct was at least not opposed to its best interests; and (iii) in the case of any criminal proceeding, that he had no reasonable cause to believe his conduct was unlawful. Under the Virginia Act, a corporation may not indemnify a director (i) in connection with a proceeding by or in the right of the corporation in which the director is adjudged liable to the corporation; or (ii) in any other proceeding charging improper personal benefit to him, in which he is adjudged liable on the basis that personal benefit was improperly received by him. The Virginia Act also prohibits indemnification of a director for willful misconduct or a knowing violation of the criminal law.

The Corporation's Articles of Incorporation call for the indemnification of (a) any person who was or is a party to any proceeding, including a proceeding brought by a shareholder in the right of the Corporation or brought by or on behalf of shareholders of the Corporation, by reason of the fact that he is or was a Director or officer of the Corporation, or (b) any Director or officer who is or was serving at the request of the Corporation as a director, trustee, partner or officer of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against any liability incurred by him in connection with such proceeding unless he engaged in willful misconduct or a knowing violation of criminal law.

Federal Law Restrictions on Acquisition of the Bank

Under the Bank Holding Company Act of 1956 ("BHCA") and regulations promulgated thereunder by the Federal Reserve, no company may acquire "control" of institutions that offer demand deposit accounts and make commercial loans without the prior approval of the Federal Reserve. The ownership of, control, holding with power to vote of, or holding proxies representing 25% or more of any class of voting securities is presumed to be a "controlling" interest under the BHCA, and, depending on the circumstances, control may be found to exist below this level of ownership. Any company acquiring such control would become a bank holding company, would be subject to certain limitations and prohibitions on its operations, and would become subject to registration, examination and supervision by the Federal Reserve. The Federal Reserve may withhold approval of an application to become a bank holding company on certain specified grounds.

Articles of Incorporation

Limitation on Ownership in Excess of 9.99%. The Articles of Incorporation restrict the transfer, sale, assignment, gift, pledge, or bequest of a beneficial interest in common stock of the Corporation to an "interested shareholder" without prior approval by a majority of the Corporation's Board of Directors.

An "interested shareholder" is any person, firm, corporation,

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partnership, joint venture, or other entity whom either directly or indirectly, through the use of an associate or affiliate, is or becomes a beneficial owner of stock in excess of 9.99% of the total outstanding common shares of the Corporation. Any shares acquired in excess of the 9.99% threshold will be considered excess shares, and such transfer will be considered null and void.

Such restriction is marked conspicuously on the front and back of the stock certificate in compliance with Section 13.1-648.B of the Virginia Code requiring adequate notification of any such restriction.

The Corporation's Articles of Incorporation provide for a classified Board of Directors which is divided into three classes, with each class serving a three-year term and one class of directors being elected each year. In addition to classifying the Board of Directors, the Articles of Incorporation also provide, subject to the rights of holders of any outstanding preferred stock, that directors can be removed during their terms of office for cause only by the affirmative vote of the holders of more than two-thirds of the then outstanding voting shares. Thus, holders of a majority (but less than two-thirds) of the Corporation's outstanding shares might not be able to remove a director, even for cause, for up to three years. The Articles of Incorporation also would require the affirmative vote of more than two-thirds of the outstanding voting shares to increase or decrease the number of directors by more than 30% of the number of directors last elected by the stockholders.

The Corporation has not adopted many of the conventional anti-takeover provisions such as a fair-price charter amendment, a super-majority vote charter amendment, or an anti-greenmail charter amendment. The Articles of Incorporation do, however, as permitted by Virginia law, in addition to staggering the terms of the members of the Board of Directors, provide the Board of Directors with flexibility to eliminate the right of stockholders to call a special meeting and, as explained below, to fix the stockholder vote required for certain corporate actions.

Virginia law provides that certain significant corporate actions must be approved by a vote of more than two-thirds of the votes entitled to be cast on the matter, unless the Articles of Incorporation provide otherwise. These actions include amendments to a corporation's articles of incorporation, plans of merger or exchange, sales of substantially all assets other than in the ordinary course of business or plans of dissolution ("Fundamental Actions"). Virginia law also provides that a corporation's articles of incorporation may either increase the vote required to approve Fundamental Actions or decrease the required vote to not less than a majority of all the votes cast by each voting group entitled to vote on the transaction at a meeting at which a quorum of the voting group exists.

The Articles of Incorporation decrease the stockholder vote required to approve amendments to the Articles of Incorporation to a majority of the shares cast on such proposed amendments, unless the Board of Directors conditions its submission of a proposed amendment on receipt of a greater vote. The Articles of Incorporation also provide that, unless the Board of Directors conditions its submission of a proposed Fundamental Action (other than an amendment to the Articles of Incorporation) on receipt of a greater vote, any Fundamental Action that requires stockholder approval must be approved by a vote of more than two-thirds of the votes entitled to be cast on such Fundamental Action.

The effect of these provisions is to make stockholder approval of Fundamental Actions less difficult to obtain in the case of Fundamental Actions favored by the Board of directors. A lower required stockholder vote on amendments to the Articles of Incorporation will benefit the Corporation in terms of cost savings related to the solicitation efforts necessary to obtain a more than two-thirds vote. If, however, the Board of directors conditions approval of a Fundamental Action on receipt of a higher stockholder vote, this provision will make approval of the Fundamental Action more difficult to obtain. For this reason, these provisions of the Articles of Incorporation and Virginia law have anti-takeover implications in that they permit the Board of Directors to make a Fundamental Action not approved by it more difficult to adopt.

UNDERWRITING

The Underwriter, McKinnon & Company, Inc., 555 Main Street, Norfolk, Virginia, has agreed, subject to the terms and conditions contained in an underwriting agreement with the Corporation, to sell, as selling agent for the Corporation on a best efforts basis, the Shares offered in the Subscription Offering that are not purchased by stockholders, together with 400,000 additional Shares. The Underwriter is not obligated to purchase the Shares if they are not sold to the public.

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The Underwriter has informed the Corporation that it proposes to offer the Shares as selling agent for the Corporation, subject to prior sale, when, as and if issued by the Corporation, in part to the public at the Public Offering price, and in part through certain selected dealers to customers of such selected dealers at the Public Offering price. The Underwriter reserves the right to reject any order for the purchase of Shares through it, in whole or in part.

Neither the Subscription Offering nor the Public Offering is contingent upon the occurrence of any event or the sale of a minimum or maximum number of Shares. Funds received by the Underwriter from investors in the Public Offering will be deposited with and held by Crestar Bank as escrow agent (the "Escrow Agent") in a non-interest bearing escrow account until the closing of the both the Subscription Offering and Public Offering.

Prior to the Offerings, there has been no established market for the Corporation's Common Stock. The Corporation has applied to list its Common Stock on the NASDAQ SmallCap Market under the symbol "MCFV"; however, there can be no assurance that an active trading market for the Corporation's Common Stock will develop after the Offerings, or if developed, that such a market will be sustained.

The Underwriter advised the Corporation on the structure of the Subscription Offering. The Subscription Offering price was determined by the Corporation after consultation with the Underwriter. The Public Offering price will be determined by negotiations between the Corporation and the Underwriter. Among the factors that will be considered in determining the price of the Public Offering Shares are the history and the prospects for the Corporation, its past and present earnings and trend of such earnings, the prospects for future earnings, the current performance and prospects of the banking industry in which it competes, the general condition of the securities market at the time of the Public Offering, and the prices of equity securities of comparable companies.

The directors of the Corporation have agreed that they will not sell, contract to sell, or otherwise dispose of any shares of Common Stock or any securities convertible into or exchangeable for any shares of Common Stock for a period of 120 days after the date of the commencement of the Offerings without the prior written consent of the Underwriter. Officers of the Corporation who are not directors have not entered into any agreements restricting their sale of the Corporation's Common Stock. The Underwriter may from time to time be a customer of, engage in transactions with, and perform services for the Corporation in the ordinary course of business.

The Corporation has agreed to indemnify the Underwriter against certain civil liabilities, including liability under the Securities Act of 1933, as amended. The Corporation has agreed to pay the Underwriter's legal fees, which will not exceed $10,000, and to reimburse the Underwriter for up to $1,000 for costs of informational and due diligence meetings.

LEGAL MATTERS

The validity of the shares of Common Stock offered hereby will be passed upon for the Corporation by Kaufman & Canoles, P.C. of Norfolk, Virginia. Certain legal matters are being passed upon for the Underwriter by Kaufman & Canoles, P.C.

EXPERTS

The financial statements of the Bank at December 31, 1995 and 1994 and for the three year period ended December 31, 1995 included in this Prospectus have been audited by Yount, Hyde & Barbour, P.C., independent certified public accountants, to the extent and for the periods indicated in their report thereon, and are included in reliance upon the authority of Yount, Hyde & Barbour, P.C., as experts in accounting and auditing.

Part F/S

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Marathon Financial Corporation
Winchester, Virginia

We have audited the accompanying consolidated balance sheets of Marathon Financial Corporation and Subsidiaries, as of December 31, 1995 and 1994, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 1995, 1994 and 1993. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marathon Financial Corporation and Subsidiaries, as of December 31, 1995 and 1994, and the results of its operations and its cash flows for the years ended December 31, 1995, 1994 and 1993, in conformity with generally accepted accounting principles.

As discussed in Note 1, the Corporation changed its method of accounting for investments in debt and equity securities to adopt the provisions of Statements of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" in 1994.

/s/ Yount, Hyde & Barbour, P.C.

Winchester, Virginia
January 31, 1996

MARATHON FINANCIAL CORPORATION

Consolidated Balance Sheets

December 31, 1995 and 1994

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<TABLE>
<CAPTION>

Assets	1995	1994
Cash and due from banks	$ 2 282 876	$ 1 788 496
Securities (fair value: 1995, $1,708,102 and 1994, $1,450,973) (Note 2)	1 699 472	1 489 791
Federal funds sold	1 574 000	277 000
Loans, net (Notes 3 and 4)	28 774 020	22 618 297
Bank premises and equipment, net (Notes 5 and 9)	1 288 463	1 242 102
Organization costs, at amortized cost (Note 6)	- -	5 064
Accrued interest receivable	159 066	172 734
Other real estate	236 123	- -
Other assets	55 999	88 743
	$ 36 070 019	$ 27 682 227
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 5 261 411	$ 3 759 042
Interest bearing	27 360 753	20 845 174
Total deposits (Note 7)	$ 32 622 164	$ 24 604 216
Interest expense payable	60 151	134 969
Accounts payable and accrued expenses	93 220	54 984
Mortgage payable	507 134	529 368
Capital lease payable (Note 9)	109 600	114 721
Commitments and contingent liabilities (Notes 10 and 13)	- -	- -
Total liabilities	$ 33 392 269	$ 25 438 258
Stockholders' Equity		
Preferred stock, Series A, 5% noncumulative, no par value; 1,000,000 shares authorized; 1995, no shares issued and outstanding; 1994, 200,688 shares issued and outstanding	$ - -	$ 1 003 440
Common stock, $1 par value; 20,000,000 shares authorized; 1995, 1,306,303 shares issued and outstanding; 1994, 1,078,601 shares issued and outstanding	1 306 303	1 078 601
Capital surplus	5 109 908	4 199 100
Retained earnings (deficit)	(3 746 878)	(4 029 140)
Unrealized gain (loss) on securities available for sale	8 417	(8 032)
Total stockholders' equity	$ 2 677 750	$ 2 243 969
	$ 36 070 019	$ 27 682 227

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Income

Years Ended December 31, 1995, 1994 and 1993

<TABLE>
<CAPTION>

	1995	1994	1993
Interest income:			
Interest and fees on loans	$ 2 786 074	$ 2 123 881	$ 1 463 942
Interest on investment securities:			
Taxable	42 788	67 870	- -
Nontaxable	15 000	15 000	- -

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Interest and dividends on securities available for sale:			
Taxable	16 559	13 452	123 143
Nontaxable	- -	- -	15 000
Dividends	13 060	5 404	3 374
Interest on federal funds sold	66 829	25 641	19 683
Total interest income	$ 2 940 310	$ 2 251 248	$ 1 625 142
Interest expense:			
Interest on deposits (Note 7)	$ 1 203 143	$ 801 614	$ 661 920
Interest on mortgage payable	38 949	40 550	54 742
Interest on capital lease obligation	8 610	2 816	- -
Interest on federal funds purchased	1 536	3 933	430
Total interest expense	$ 1 252 238	$ 848 913	$ 717 092
Net interest income	$ 1 688 072	$ 1 402 335	$ 908 050
Provision for loan losses (Note 4)	113 419	151 533	12 100
Net interest income after provision for loan losses	$ 1 574 653	$ 1 250 802	$ 895 950
Other income:			
Service charges on deposit accounts	$ 227 776	$ 112 899	$ 56 264
Commissions and fees	45 207	31 725	27 062
Gain on redemption of investment securities	- -	19 125	- -
Settlement of legal disputes	- -	58 847	- -
Other	8 346	19 393	10 098
Total other income	$ 281 329	$ 241 989	$ 93 424

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Income

(Continued)

Years Ended December 31, 1995, 1994 and 1993

<TABLE>
<CAPTION>

<S> <C>

	1995	1994	1993
Other expenses:			
Salaries and employee benefits	$ 675 948	$ 523 017	$ 385 230
Net occupancy expense of premises	110 478	91 624	75 701
Furniture and equipment	98 969	57 100	75 632
Other (Note 12)	550 046	502 574	372 292
Total other expenses	$ 1 435 441	$ 1 174 315	$ 908 855
Income before income taxes	$ 420 541	$ 318 476	$ 80 519
Provision for income taxes (Note 8)	- -	- -	- -
Net income	$ 420 541	$ 318 476	$ 80 519
Earnings per common and equivalent share (Note 1)	$ .35	$ .30	$ .08

</TABLE>

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MARATHON FINANCIAL CORPORATION

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 1995, 1994 and 1993

<TABLE>
<CAPTION>

<S> <C>	Capital Stock Preferred	Capital Stock Common	Capital Surplus	Retained Earnings (Deficit)	Unrealized Gain (Loss) on Securities Available for Sale	Total Stockholders' Equity
Balance, December 31, 1992	$ 1 003 440	$ 992 335	$ 3 854 036	$ (4 352 800)	$ - -	$ 1 497 011
Net income - 1993	- -	- -	- -	80 519	- -	80 519
Sale of common stock (71,199 shares)	- -	71 199	284 796	- -	- -	355 995
Issuance of common stock (5,030 shares)	- -	5 030	20 120	(25 150)	- -	- -
Balance, December 31, 1993	$ 1 003 440	$ 1 068 564	$ 4 158 952	$ (4 297 431)	$ - -	$ 1 933 525
Net income - 1994	- -	- -	- -	318 476	- -	318 476
Issuance of common stock (10,037 shares)	- -	10 037	40 148	(50 185)	- -	- -
Unrealized gain (loss) on securities available for sale	- -	- -	- -	- -	(8 032)	(8 032)
Balance, December 31, 1994	$ 1 003 440	$ 1 078 601	$ 4 199 100	$ (4 029 140)	$ (8 032)	$ 2 243 969
Net income - 1995	- -	- -	- -	420 541	- -	420 541
Issuance of common stock (15,045 shares)	- -	15 045	60 180	(75 225)	- -	- -
Issuance of common stock - stock dividend (11,969 shares) (Note 11)	- -	11 969	47 876	(59 845)	- -	- -
Cash to be paid in lieu of fractional shares	- -	- -	- -	(3 209)	- -	(3 209)
Unrealized gain (loss) on securities available for sale	- -	- -	- -	- -	16 449	16 449
Conversion of preferred stock to common stock (200,688 shares)	(1 003 440)	200 688	802 752	- -	- -	- -
Balance, December 31, 1995	$ - -	$ 1 306 303	$ 5 109 908	$ (3 746 878)	$ 8 417	$ 2 677 750

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Cash Flows

Years Ended December 31, 1995, 1994 and 1993

<TABLE>
<CAPTION>

<S> <C>	1995	1994	1993
Cash Flows from Operating Activities			
Net income	$ 420 541	$ 318 476	$ 80 519

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	1995	1994	1993
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	16 194	34 670	41 428
Depreciation	103 366	73 710	88 118
Provision for loan losses	113 419	151 533	12 100
Writedown of other real estate	42 581	- -	- -
Gain on redemption of investment securities	- -	(19 125)	- -
Accretion of securities discounts, net	(2 567)	(2 210)	(4 299)
Changes in assets and liabilities:			
(Increase) decrease in other assets	21 614	(9 440)	(6 496)
(Increase) decrease in accrued interest receivable	13 668	(68 341)	26 444
Increase (decrease) in accounts payable and accrued expenses	35 027	43 672	(112 626)
Increase (decrease) in interest expense payable	(74 818)	(143 266)	15 282
Net cash provided by operating activities	$ 689 025	$ 379 679	$ 140 470
Cash Flows from Investing Activities			
Proceeds from maturities, calls and principal payments of investments securities	$ 21 240	$ 800 362	$ - -
Proceeds from maturities and principal payments of securities available for sale	4 901	23 648	861 703
Purchase of investment securities	- -	(538 833)	- -
Purchase of securities available for sale	(216 806)	(244 336)	(207 000)
Net (increase) in loans	(6 547 846)	(4 620 745)	(7 333 303)
Purchase of equipment	(128 332)	(56 076)	(80 329)
Net cash (used in) investing activities	$ (6 866 843)	$ (4 635 980)	$ (6 758 929)
Cash Flows from Financing Activities			
Net increase in demand deposits, NOW accounts and savings accounts	$ 2 383 106	$ 1 075 894	$ 4 742 518
Net increase in certificates of deposit	5 634 842	3 922 516	1 185 182
Net proceeds from issuance of common stock	- -	- -	355 995
Principal payments on capital lease obligations	(26 516)	(14 931)	- -
Proceeds on refinance of mortgage payable	- -	- -	550 000
Principal payments on mortgage payable	(22 234)	(20 632)	(548 648)
Net cash provided by financing activities	$ 7 969 198	$ 4 962 847	$ 6 285 047

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Cash Flows

(Continued)

Years Ended December 31, 1995, 1994 and 1993

<TABLE>
<CAPTION>

<S> <C>

	1995	1994	1993
Increase (decrease) in cash and cash equivalents	$ 1 791 380	$ 706 546	$ (333 412)
Cash and Cash Equivalents			
Beginning	2 065 496	1 358 950	1 692 362
Ending	$ 3 856 876	$ 2 065 496	$ 1 358 950
Supplemental Disclosures of Cash Flow Information, cash payments for interest	$ 1 327 056	$ 992 179	$ 701 810

Supplemental Schedule of Noncash

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Investing and Financing Activities:			
Other real estate acquired in settlement of loans	$ 278 704	$ - -	$ - -
Issuance of common stock	$ 138 279	$ 50 185	$ 25 150
Equipment acquired under capital lease obligations	$ 21 395	$ 129 652	$ - -
Conversion of preferred stock to common stock	$ 1 003 440	$ - -	$ - -
Unrealized gain (loss) on securities available for sale	$ 16 449	$ (8 032)	$ - -

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Banking Activities and Significant Accounting Policies

Marathon Financial Corporation and Subsidiary (the Corporation) grant commercial, financial, agricultural, residential and consumer loans to customers in Virginia. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers.

On December 31, 1993, the Marathon Land Trust was merged into the Marathon Bank. The Marathon Bank acquired all assets and assumed all liabilities of the Trust. This transaction had no effect on the consolidated financial statements presented.

The accounting and reporting policies of the Corporation conform to generally accepted accounting principles and to general practices within the banking industry. The following is a summary of the more significant policies.

Principles of Consolidation

The consolidated financial statements of the Marathon Financial Corporation and its Subsidiaries, include the accounts of all companies. All material intercompany balances and transactions have been eliminated.

Securities

The Corporation adopted FASB No. 115, "Accounting for Certain Investment in Debt and Equity Securities" effective beginning January 1, 1994. This statement addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. Those investments are classified in three categories and accounted for as follows:

a. Securities Held to Maturity

Securities classified as held to maturity are those debt securities the Corporation has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the interest method over their contractual lives.

b. Securities Available for Sale

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Securities classified as available for sale are those debt and equity securities that the Corporation intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Corporation's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair

value. Unrealized gains or losses are reported as increases or decreases in stockholders' equity. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings.

c. Trading Securities

Trading securities, which are generally held for the short term in anticipation of market gains, are carried at fair value. Realized and unrealized gains and losses on trading account assets are included in interest income on trading account securities. The Corporation had no trading securities at December 31, 1995 and 1994.

Prior to 1994, the Corporation also classified its securities into three investment categories: trading, available for sale, and held to maturity. The accounting policies for these categories were the same except for securities available for sale, which were carried at the lower of cost or market.

Derivative Financial Instruments

In October, 1994, FASB No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments" was issued. It requires various disclosures for derivative financial instruments which are futures, forward, swap, or option contract, or other financial instruments with similar characteristics. The Corporation does not have any derivative financial instruments as defined under this statement.

Loans

Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Unearned discount on installment loans is recognized as income over the terms of the loans by the interest method. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Loans are charged off when management believes that the collectibility of the principal is unlikely. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful.

On January 1, 1995, the Corporation adopted FASB No. 114, "Accounting by Creditors for Impairment of a Loan." This statement has been amended by FASB No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." Statement 114, as amended, requires that the impairment of loans that have been separately identified for evaluation is to be measured based on the present value of expected future cash flows or, alternatively, the observable market price of the loans or the fair value of the collateral. However, for those loans that are collateral dependent (that is, if repayment of those loans is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable, the measure of impairment of those loans is to be based on the fair value of the collateral. Statement 114, as amended, also requires certain disclosures about investments in impaired loans and the allowance for credit losses and

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interest income recognized on loans. The Corporation had no loans subject to FASB 114 at December 31, 1995.

Loans are placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily on the straight-line and declining-balance methods. Lease amortization is included in depreciation expense.

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Classifications of Amortization on Assets Acquired Under Capital Leases

The amortization expense on assets acquired under capital leases is included with the depreciation expense.

Earnings Per Share

Earnings per share of common stock are based on the weighted average number of common shares outstanding during each year after giving retroactive effect to the stock dividend declared in 1995.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carry-forwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Organization Costs

The Marathon Bank was organized under the laws of the State of Virginia and commenced operations as a commercial bank on December 15, 1988. Certain expenses incurred prior to this date were deferred and were amortized using the straight-line method over a 60-month period.

In addition, the Marathon Financial Corporation was organized under the laws of the State of Virginia as a bank holding company on October 2, 1990. Certain expenses incurred prior to this date were deferred and were amortized using the straight-line method over a 60-month period.

Loan Fees and Costs

Loan origination and commitment fees and direct loan origination costs are being recognized as collected and incurred. The use of this method of recognition does not produce results that are materially different from results which would have been produced if such costs and fees were deferred and amortized as an adjustment of the loan yield over the life of the related loan.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Securities

The amortized cost and fair value of the securities available for sale as of December 31, 1995 and 1994, are as follows:

<TABLE>
<CAPTION>

1995	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
<S> <C>				
Obligations of U.S. government corporations and agencies	$ 447 801	$ 6 636	$ - -	$ 454 437
Mortgage-backed securities	38 639	1 781	- -	40 420
Other	278 650	- -	- -	278 650
	$ 765 090	$ 8 417	$ - -	$ 773 507

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<CAPTION>

	1994			
<S> <C>				
U.S. Treasuries and obligations of U.S. government corporations and agencies	$ 289 035	$ 8	$ (8 040)	$ 281 003
Other	262 750	- -	- -	262 750
	$ 551 785	$ 8	$ (8 040)	$ 543 753

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost and fair value of the securities available for sale as of December 31, 1995, by contractual maturity, are shown below.

<TABLE>
<CAPTION>

<S> <C>	Amortized Cost	Fair Value
Due in one year or less	$ 246 895	$ 252 500
Due after one year through five years	200 906	201 937
Mortgage-backed securities	38 639	40 420
Other	278 650	278 650
	$ 765 090	$ 773 507

</TABLE>

The amortized cost and fair value of securities being held to maturity as of December 31, 1995 and 1994, are as follows:

<TABLE>
<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		1995		
<S> <C>				
U.S. Treasuries and obligations of U.S. government corporations and agencies	$ 649 946	$ 54	$ (2 625)	$ 647 375
Obligations of state and political subdivisions	150 000	10 590	- -	160 590
Corporate securities	99 819	181	- -	100 000
Mortgage-backed securities	26 200	430	- -	26 630
	$ 925 965	$ 11 255	$ (2 625)	$ 934 595

<CAPTION>

	1994			
<S> <C>				
U.S. Treasuries and obligations of U.S. government corporations and agencies	$ 649 290	$ - -	$ (38 322)	$ 610 968
Obligations of state and political subdivisions	150 000	4 995	- -	154 995

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Corporate securities	99 686	- -	(2 686)	97 000
Mortgage-backed securities	47 062	229	(3 034)	44 257
	$ 946 038	$ 5 224	$ (44 042)	$ 907 220

</TABLE>

The amortized cost and fair value of the securities being held to maturity as of December 31, 1995, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the corporate securities and mortgages underlying the mortgage-backed securities may be called or prepaid without any penalties.

<TABLE>
<CAPTION>

<S> <C>

	Amortized Cost	Fair Value
Due in one year or less	$ 199 946	$ 200 000
Due after one year through five years	450 000	447 375
Due after ten years	150 000	160 590
Corporate securities	99 819	100 000
Mortgage-backed securities	26 200	26 630
	$ 925 965	$ 934 595

</TABLE>

Proceeds from maturities, calls and principal payments of securities available for sale during 1995, 1994 and 1993 were $4,901, $23,648 and $861,703. There were no realized gains or realized losses recognized on these transactions.

Proceeds from maturities, calls and principal payments of securities being held to maturity during 1995 and 1994 were $21,240 and $800,362. There were no realized gains or realized losses recognized on these transactions.

Securities having a book value of $702,448 and $686,478 at December 31, 1995 and 1994 were pledged to secure public deposits and for other purposes required by law.

Note 3. Loans and Related Party Transactions

The loan portfolio as of December 31, 1995 and 1994, is composed of the following:

<TABLE>
<CAPTION>

<S> <C>

	1995	1994
Commercial	$ 13 315 029	$ 11 976 315
Real estate - mortgage	6 133 400	4 923 825
Real estate - construction	3 637 433	2 487 939
Installment loans to individuals	6 081 297	3 529 421
	$ 29 167 159	$ 22 917 500
Less allowance for loan losses	393 139	299 203
	$ 28 774 020	$ 22 618 297

</TABLE>

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, executive officers, their immediate families and affiliated companies

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in which they are principal stockholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for

comparable transactions with others. These persons and firms (exclusive of loans to any such person which in the aggregate did not exceed $60,000) were indebted to the Bank for loans totaling $1,174,885 and $1,294,697 at December 31, 1995 and 1994, respectively. During 1995, total principal additions were $839,888 and total principal payments were $959,700.

NOTE 4. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses are as follows:

<TABLE>
<CAPTION>

	December 31, 1995	1994	1993
<S> <C>			
BALANCE, BEGINNING	$ 299 203	$ 224 758	$ 196 476
Provision for loan losses	113 419	151 533	12 100
Recoveries	11 185	12 744	20 367
Loan losses charged to the allowance	(30 668)	(89 832)	(4 185)
BALANCE, ENDING	$ 393 139	$ 299 203	$ 224 758

</TABLE>

Nonaccrual loans excluded from impaired loan disclosure under FASB 114 amounted to $45,445 and $269,314 at December 31, 1995 and 1994, respectively. If interest on these loans had been accrued, such income would have approximated $3,679 and $4,770 for 1995 and 1994, respectively.

NOTE 5. BANK PREMISES AND EQUIPMENT, NET

Bank premises and equipment as of December 31, 1995 and 1994 consists of the following:

	1995	1994
Capital leases - computer	$ 151 047	$ 129 652
Bank premises	1 314 922	1 268 464
Furniture and equipment	553 837	472 290
	$ 2 019 806	$ 1 870 406
Less accumulated depreciation	731 343	628 304
	$ 1 288 463	$ 1 242 102

Depreciation included in operating expense for 1995, 1994, and 1993 was $103,366, $73,710, and $88,118, respectively.

NOTE 6. ORGANIZATION COSTS

Certain costs incurred by the Bank prior to commencing operations on December 15, 1988, were capitalized and amortized over a 60-month life. These costs totaled $108,361.

Certain costs incurred by the Corporation prior to commencing operations on October 2, 1990, were capitalized and amortized over a 60-month life. These costs totaled $60,350.

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NOTE 7. DEPOSITS

Deposits outstanding at December 31, 1995, 1994 and 1993 and the related interest expense for the years then ended, are summarized as follows:

<TABLE>
<CAPTION>

	Year Ended			
	December 31, 1995		December 31, 1994	
<S> <C>	Amount	Expense	Amount	Expense
Noninterest bearing	$ 5 261 411	$ - -	$ 3 759 042	$ - -
Interest bearing:				
Interest checking	$ 1 941 150	$ 48 524	$ 1 731 740	$ 38 974
Money market accounts	3 307 328	92 892	2 366 898	86 388
Regular savings	4 980 952	157 793	5 250 054	211 531
Certificates of deposit:				
Less than $100,000	13 870 161	738 106	9 496 559	418 561
$100,000 and more	3 261 162	165 828	1 999 923	46 160
Total interest bearing	$ 27 360 753	$ 1 203 143	$ 20 845 174	$ 801 614
Total deposits	$ 32 622 164	$ 1 203 143	$ 24 604 216	$ 801 614

</TABLE>

	Year Ended December 31, 1993	
	Expense	Amount
Noninterest bearing	$ 2 480 666	$ - -
Interest bearing:		
Interest checking	$ 1 120 707	$ 23 864
Money market accounts	2 217 352	81 396
Regular savings	6 213 115	192 527
Certificates of deposit:		
Less than $100,000	6 763 082	321 022
$100,000 and more	810 884	43 111
Total interest bearing	$17 125 140	$ 661 920
Total deposits	$19 605 806	$ 661 920

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. INCOME TAXES

Effective January 1, 1993, the Corporation adopted FASB No. 109, "Accounting for Income Taxes". The cumulative effect of the change in accounting principle is deemed immaterial in determining net income for the year ended December 31, 1993.

Net deferred tax assets consist of the following components as of December 31, 1995, 1994 and 1993:

<TABLE>
<CAPTION>

<S> <C>	1995	1994	1993
Deferred tax assets:			
Net operating loss carryforward	$ 1 291 762	$ 1 469 716	$ 1 610 105
Writedown of other real estate	14 478	- -	- -
Less valuation allowance	(1 206 820)	(1 349 715)	(1 450 418)

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	$ 99 420	$ 120 001	$ 159 687
Deferred tax liabilities:			
Allowance for loan losses	$ 99 420	$ 120 001	$ 155 450
Deferred loan fees	- -	- -	4 237
	$ 99 420	$ 120 001	$ 159 687
	$ - -	$ - -	$ - -

</TABLE>

The provision for income taxes charged to operations for the years ended December 31, 1995, 1994 and 1993, consists of the following:

<TABLE>
<CAPTION>

<S> <C>

	1995	1994	1993
Current tax effect	$ - -	$ - -	$ - -
Deferred tax expense	142 895	100 703	- -
Benefit of net operating loss	(142 895)	(100 703)	- -
	$ - -	$ - -	$ - -

</TABLE>

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the years ended December 31, 1995, 1994 and 1993, due to the following:

<TABLE>
<CAPTION>

<S> <C>

	1995	1994	1993
Computed "expected" tax expense	$ 142 984	$ 108 282	$ 29 401
Increase (decrease) in income taxes resulting from:			
Reduction of valuation allowance	(142 895)	(100 703)	(14 451)
Tax exempt interest income	(3 173)	(4 754)	(3 200)
Reduced tax due to marginal tax rates	- -	(826)	(11 750)
Other	3 084	(1 999)	- -
	$ - -	$ - -	$ - -

</TABLE>

Under the provisions of the Internal Revenue Code, the Corporation has available approximately $3,799,300 of net operating loss carryforwards which can be offset against future taxable income. The carryforwards expire December 31, 2006. The full realization of the tax benefits associated with the carryforwards depends predominately upon the recognition of ordinary income during the carryforward period.

The loss carryforward at December 31, 1995, for financial reporting purposes is approximately $3,529,874. The differences between the loss carryforward for financial reporting and income tax purposes results principally from timing differences in recognizing start-up costs and the provision for loan losses. No deferred taxes are recorded on these timing differences due to the net operating loss carryforward position of the Corporation.

NOTE 9. LEASES

CAPITAL LEASE

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During the year ended December 31, 1994, the Corporation entered into a lease agreement on computer equipment and software. Additional equipment and software was added to the lease during 1995 in the amount of $21,395. The balance of the liability under capital leases at December 31, 1995 in the amount of $109,600 represents the present value of the balance due in future years for lease rentals discounted at 7%. The liability is payable in quarterly installments of $9,017 for principal and interest to June 1, 1999. Since the term of the lease is approximately the same as the estimated useful life of the assets, and the present value of the future minimum lease payments at the beginning of the lease approximated the fair value of the leased assets at that date, the leases are considered to be capital leases and have been so recorded. The lease also requires additional maintenance payments of $4,853 per quarter.

The following is a schedule by years of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 1995:

Years ending December 31:

1996	$	55 480
1997		55 480
1998		55 480
1999		25 821
Total minimum lease payments	$	192 261
Less estimated executory costs (such as maintenance) included in the total minimum lease payments		67 942
Net minimum lease payments	$	124 319
Less the amount representing interest		14 719
Present value of net minimum lease payments	$	109 600

LEASE COMMITMENTS AND TOTAL RENTAL EXPENSE

During the year ended December 31, 1994, the Corporation entered into a five-year operating lease for the rental of a branch location. The lease expires on September 30, 1999 and has two five-year renewal options. The lease provides that the Corporation pay all property taxes, insurance and maintenance plus an annual rental of $12,000 for the initial lease period commencing on April 1, 1995. The total minimum lease commitment at December 31, 1995 under this lease is $51,000 which is due as follows:

1996	$	12 000
1997		12 000
1998		12 000
1999		12 000
2000		3 000
	$	51 000

There was $9,000 in rental expense resulting from this lease included in the consolidated statements of income for the year ended December 31, 1995.

FIXED EQUIPMENT ON LAND LEASED WITH RELATED PARTIES

Fixed equipment with a depreciated cost at December 31, 1995 of $21,904 is located on land leased from a partnership of which the Corporation's president is a partner. The lease expires on June 30, 1996, and includes an option to buy agreement; whereby the Corporation can purchase the property for $150,000 at any time on or before June 30, 1996. The total minimum lease commitment at December 31, 1995, under this lease is $6,600 payable in 1996.

As of December 31, 1995 the Corporation has invested $36,614 in the construction of a new building on this site. The total estimated cost of the finished building is $225,000. The Corporation has agreed to finance the construction of the building with the understanding that the lessor will reimburse the

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Corporation for all costs and will lease the building to the Corporation for a rental expense to be determined based on the total cost of the finished building and a land value of $150,000. The estimated date of completion for the project is June 1, 1996 at which time the lease terms will be renegotiated.

NOTE 10. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, there are other outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. See Note 13 with respect to financial instruments with off-balance-sheet risk.

As members of the Federal Reserve System, the Corporation is required to maintain certain average reserve balances. For the final weekly reporting period in the year ended December 31, 1995 this requirement was $65,000. For the final weekly reporting period in the year ended December 31, 1994, there was no daily average required balance.

NOTE 11. DIVIDEND RESTRICTIONS

Federal and state regulations limit the amount of dividends which the Corporation can pay without obtaining prior approval and, additionally, federal regulations require that the Corporation maintain minimum capital requirements. As of December 31, 1995, the Corporation was required to obtain prior approval on any dividend declared.

The Corporation did obtain approval from the State Corporation Commission to pay a stock dividend and on December 19, 1995, the Board of Directors declared a stock dividend equal to 15% of net income, payable February 8, 1996, to stockholders of record December 19, 1995. This dividend has been reflected in the accompanying financial statements.

Transfers of funds from the banking subsidiary to the parent corporation in the form of loans, advances and cash dividends are restricted by federal and state regulatory authorities. As of December 31, 1995, no unrestricted funds could be transferred from the banking subsidiary to the parent corporation, without prior regulatory approval.

NOTE 12. OTHER EXPENSES

The principal components of "Other expenses" in the Consolidated Statements of Income are:

<TABLE>
<CAPTION>

<S> <C>	1995	1994	1993
FDIC assessment	$ 33 798	$ 52 377	$ 39 513
Other real estate valuation	42 581	- -	- -
Marketing	53 619	32 522	16 193
Stationery and supplies	48 225	30 486	16 976
Other (includes no items in excess of 1% of total revenue)	371 823	387 189	299 610
	$ 550 046	$ 502 574	$ 372 292

</TABLE>

NOTE 13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Corporation is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

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The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contract or notional amount of the Corporation's exposure to off-balance-sheet risk as of December 31, 1995 and 1994 is as follows:

	1995	1994
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 3 698 658	$ 2 969 252
Standby letters of credit	76 812	54 500

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation holds no collateral supporting those commitments.

The Corporation has cash accounts in other commercial banks. The amount on deposit at two of these banks at December 31, 1995 exceeded the insurance limits of the Federal Deposit Insurance Corporation by approximately $274,000.

NOTE 14. DEFINED CONTRIBUTION RETIREMENT PLAN

The Corporation has a defined contribution retirement plan under Code Section 401(k) of the Internal Revenue Service covering employees who have completed six months of service and who are at least 21 years of age. Contributions made to the plan for the year ended December 31, 1995 was $9,601. No contributions were made for the years ended December 31, 1994 and 1993.

NOTE 15. WRITTEN AGREEMENT

On January 28, 1992, a written agreement was entered into by the Board of Directors of the Bank with the Federal Reserve Bank of Richmond and the Bureau of Financial Institutions. The written agreement was terminated effective November 23, 1994.

NOTE 16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is

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practicable to estimate that value:

CASH AND SHORT-TERM INVESTMENTS

For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

SECURITIES

For securities held for investment purposes, fair values are based on quoted market prices or dealer quotes.

LOAN RECEIVABLES

For certain homogeneous categories of loans, such as some residential mortgages, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

DEPOSIT LIABILITIES

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The fair value of commitments to extend credit is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present credit worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The fair value of stand-by letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

At December 31, 1995, the carrying amounts and fair values of loan commitments and stand-by letters of credit were immaterial.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The estimated fair values of the Corporation's financial instruments are as follows:

<TABLE>
<CAPTION>

	1995	
	CARRYING AMOUNT	FAIR VALUE
	(THOUSANDS)	
Financial assets:		
<S> <C>		
Cash and short-term investments	$ 3 857	$ 3 857
Securities	1 699	1 708
Loans	29 167	29 716
Less: allowance for loan losses	393	- -
Total financial assets	$ 34 330	$ 35 281

Financial liabilities:

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Deposits	$ 32 622	$ 33 136
Long-term debt	617	634
Total financial liabilities	$ 33 239	$ 33 770

</TABLE>

NOTE 17. NEW ACCOUNTING PRONOUNCEMENTS

FASB No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," establishes standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. This Statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Statement is effective for fiscal years beginning after December 15, 1995. The Statement is not expected to have a material impact on the Corporation.

FASB No. 122, "Accounting for Mortgage Servicing Rights," amends FASB No. 65, "Accounting for Certain Mortgage Banking Activities," to require that a mortgage banking enterprise recognize as separate assets rights to service mortgage loans for others, however those servicing rights are acquired. A mortgage banking enterprise that acquires mortgage servicing rights through either the purchase or origination of mortgage loans and sells or securitizes those loans with servicing rights retained should allocate the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values if it is practicable to estimate those fair values. If it is not practicable to estimate the fair values of the mortgage servicing rights and the mortgage loans (without the mortgage servicing rights), the entire cost of purchasing or originating the loans should be allocated to the mortgage loans (without the mortgage servicing rights) and no cost should be allocated to the mortgage servicing rights. The Statement is effective for transactions in fiscal years beginning after December 15, 1995. The Statement is not expected to have a material impact on the Corporation.

FASB No. 123, "Accounting for Stock-Based Compensation," establishes financial accounting and reporting standards for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer's stock. Examples are stock purchase plans, stock options, restricted stock, and stock appreciation rights. This Statement also applies to transactions in which an entity issues its equity instruments to acquire goods or services from nonemployees. Those transactions must be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

This Statement defines a fair value based method of accounting for an employee stock option or similar equity instrument and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." The fair value based method is preferable to the Opinion 25 method for purposes of justifying a change in accounting principle under APB Opinion 20, "Accounting Changes." Entities electing to remain with the accounting in Opinion 25 must make pro forma disclosures of net income and, if presented, earnings per share, as if the fair value based method of accounting defined in this Statement had been applied.

The Statement is effective for fiscal years beginning after December 15, 1995. The disclosures must include the pro forma effects of other awards granted in fiscal years beginning after December 31, 1994. The Statement is not expected to have a material impact on the Corporation.

NOTE 18. STOCK OPTIONS AND WARRANTS OUTSTANDING

On June 15, 1992 the Corporation issued one stock purchase warrant

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("warrant") for each share of preferred stock purchased in a private offering. A total of 200,688 warrants were issued. Warrants were immediately transferable and entitle the holder to purchase one share of common stock at a price of $5.00 per share until June 30, 1997. As of December 31, 1995 all 200,688 warrants were outstanding.

On April 13, 1992 the Corporation granted 500 stock options to the Corporation's chief executive officer pursuant to his employment agreement with the Corporation. The stock options are exercisable at $5.00 per share and expire on June 1, 1997. As of December 31, 1995 all 500 stock options were outstanding.

NOTE 19. PARENT CORPORATION ONLY FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

MARATHON FINANCIAL CORPORATION
(PARENT CORPORATION ONLY)

BALANCE SHEETS
December 31, 1995 and 1994

	1995	1994
ASSETS		
<S> <C>		
Cash	$ 370	$ 370
Organization cost, at amortized costs	- -	5 064
Prepaid expenses	578	213
Investment in capital stock of subsidiary	2 681 486	2 238 322
Total assets	$ 2 682 434	$ 2 243 969
LIABILITIES, accounts payable	$ 4 684	$ - -
STOCKHOLDERS' EQUITY		
Preferred stock	$ - -	$ 1 003 440
Common stock	1 306 303	1 078 601
Capital surplus	5 109 908	4 199 100
Retained earnings (deficit)	(3 746 878)	(4 029 140)
Unrealized gain (loss) on securities available for sale	8 417	(8 032)
Total stockholders' equity	$ 2 677 750	$ 2 243 969
Total liabilities and stockholders' equity	$ 2 682 434	$ 2 243 969

</TABLE>

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MARATHON FINANCIAL CORPORATION
(PARENT CORPORATION ONLY)

STATEMENTS OF INCOME
Years Ended December 31, 1995, 1994 and 1993

<TABLE>
<CAPTION>

<S> <C>	1995	1994	1993
INCOME, miscellaneous	$ - -	$ - -	$ 3 250
EXPENSES:			
Amortization	$ 5 064	$ 12 072	$ 12 072
Other	1 110	849	776
Total expenses	$ 6 174	$ 12 921	$ 12 848
(Loss) before undistributed income of subsidiaries	$ (6 174)	$ (12 921)	$ (9 598)
Undistributed income of subsidiary	$ 426 715	$ 331 397	$ 90 117
Net income	$ 420 541	$ 318 476	$ 80 519

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARATHON FINANCIAL CORPORATION
(PARENT CORPORATION ONLY)

STATEMENTS OF CASH FLOWS
Years Ended December 31, 1995, 1994 and 1993

<TABLE>
<CAPTION>

	1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES			
<S> <C>			
Net income	$ 420 541	$ 318 476	$ 80 519
Adjustments to reconcile net income to net cash (used in) operating activities:			
Amortization	5 064	12 071	12 072
Undistributed (income) of subsidiary	(426 715)	(331 397)	(90 117)
(Increase) in prepaid expenses	(365)	- -	(71)
Increase (decrease) in accounts payable, subsidiary company	1 475	- -	(3 250)
Net cash (used in) operating activities	$ - -	$ (850)	$ (847)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of common stock	$ - -	$ - -	$ 355 995

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Purchase of stock from subsidiary	- -	- -	(355 998)
Net cash (used in) financing activities	$ - -	$ - -	$ (3)
(Decrease) in cash and cash equivalents	$ - -	$ (850)	$ (850)
CASH AND CASH EQUIVALENTS			
Beginning	370	1 220	2 070
Ending	$ 370	$ 370	$ 1 220
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Issuance of common stock	$ 138 279	$ 50 185	$ 25 150
Unrealized gain (loss) on securities available for sale	$ 16 449	$ (8 032)	$ - -
Conversion of preferred stock to common stock	$ 1 003 440	$ - -	$ - -

</TABLE>

MARATHON FINANCIAL CORPORATION

Consolidated Balance Sheet
(Unaudited)

June 30, 1996

<TABLE>
<CAPTION>

Assets	
<S>	<C>
Cash and due from banks	$ 3 110 122
Securities (fair value: $1,692,099) (Note 2)	1 691 345
Federal funds sold	3 148 000
Loans, net (Notes 3 and 4)	31 596 179
Bank premises and equipment, net (Notes 5 and 9)	1 327 924
Accrued interest receivable	199 174
Other real estate	236 123
Other assets	301 870
	$ 41 610 737
Liabilities and Stockholders' Equity	
Liabilities	
Deposits:	
Noninterest bearing	$ 6 267 152
Interest bearing	31 598 997
Total deposits (Note 7)	$ 37 866 149
Interest expense payable	73 100
Accounts payable and accrued expenses	117 873
Mortgage payable	495 377
Capital lease payable (Note 9)	95 278
Commitments and contingent liabilities (Notes 10 and 13)	- -
Total liabilities	$ 38 647 777
Stockholders' Equity	
Preferred stock, Series A, 5% noncumulative, no par value; 1,000,000 shares authorized; no shares issued and outstanding	$ - -
Common stock, $1 par value; 20,000,000 shares	

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authorized; 1,306,303 shares issued and outstanding	1 306 303
Capital surplus	5 109 908
Retained earnings (deficit)	(3 443 316)
Unrealized (loss) on securities available for sale	(9 935)
Total stockholders' equity	$ 2 962 960
	$ 41 610 737

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Income
(Unaudited)

For the Six Months Ended June 30, 1996 and 1995

<TABLE>
<CAPTION>

<S> <C>	1996	1995
Interest income:		
Interest and fees on loans	$ 1 696 282	$ 1 283 690
Interest on investment securities:		
Taxable	15 905	19 272
Nontaxable	8 337	7 500
Interest and dividends on securities available for sale:		
Taxable	21 239	9 080
Dividends	4 187	6 833
Interest on federal funds sold	32 403	16 448
Total interest income	$ 1 778 353	$ 1 342 823
Interest expense:		
Interest on deposits (Note 7)	$ 717 718	$ 541 037
Interest on mortgage payable	18 835	19 683
Interest on capital lease obligation	3 712	3 495
Interest on federal funds purchased	414	1 474
Total interest expense	$ 740 679	$ 565 689
Net interest income	$ 1 037 674	$ 777 134
Provision for loan losses (Note 4)	72 500	16 000
Net interest income after provision for loan losses	$ 965 174	$ 761 134
Other income:		
Service charges on deposit accounts	$ 149 003	$ 75 799
Commissions and fees	35 409	20 028
Other	9 450	4 951
Total other income	$ 193 862	$ 100 778

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

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Consolidated Statements of Income
(Unaudited)
(Continued)
For the Six Months Ended June 30, 1996 and 1995

<TABLE>
<CAPTION>

<S>	<C> 1996	1995
Other expenses:		
Salaries and employee benefits	$ 408 531	$ 324 801
Net occupancy expense of premises	65 756	54 564
Furniture and equipment	56 186	39 053
Other (Note 12)	320 935	266 801
Total other expenses	$ 851 408	$ 685 219
Income before income taxes	$ 307 628	$ 176 693
Provision for income taxes (Note 8)	4 066	- -
Net income	$ 303 562	$ 176 693
Earnings per common and equivalent share (Note 1)	$ .23	$ .16

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)
For the Six Months Ended June 30, 1996 and 1995

<TABLE>
<CAPTION>

<S>	<C> Capital Stock Preferred	Capital Stock Common	Capital Surplus	Retained Earnings (Deficit)	Unrealized Gain (Loss) on Securities Available for Sale	Total Stockholders' Equity
Balance, December 31, 1994	$ 1 003 440	$ 1 078 601	$4 199 100	$(4 029 140)	$ (8 032)	$ 2 243 969
Net income - 1995	- -	- -	- -	176 693	- -	176 693
Unrealized gain (loss) on securities available for sale	- -	- -	- -	- -	12 899	12 899
Balance, June 30, 1995	$ 1 003 440	$ 1 078 601	$4 199 100	$(3 852 447)	$ 4 867	$ 2 433 561
Balance, December 31, 1995	$ - -	$ 1 306 303	$5 109 908	$(3 746 878)	$ 8 417	$ 2 677 750
Net income - 1996	- -	- -	- -	303 562	- -	303 562
Unrealized gain (loss) on securities available for sale	- -	- -	- -	- -	(18 352)	(18 352)
Balance, June 30, 1996	$ - -	$ 1 306 303	$5 109 908	$(3 443 316)	$ (9 935)	$ 2 962 960

</TABLE>

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MARATHON FINANCIAL CORPORATION

Consolidated Statements of Cash Flows
(Unaudited)
For the Six Months Ended June 30, 1996 and 1995

<TABLE>
<CAPTION>

<S> <C>	1996	1995
Cash Flows from Operating Activities		
Net income	$ 303 562	$ 176 693
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	5 451	10 576
Depreciation	56 820	48 223
Provision for loan losses	72 500	16 000
Accretion of securities discounts, net	(1 228)	(1 071)
Changes in assets and liabilities:		
(Increase) in other assets	(251 322)	(71 083)
(Increase) decrease in accrued interest receivable	(40 108)	2 167
Increase in accounts payable and accrued expenses	27 862	47 758
Increase (decrease) in interest expense payable	12 949	(72 536)
Net cash provided by operating activities	$ 186 486	$ 156 727
Cash Flows from Investing Activities		
Proceeds from maturities, calls and principal payments of investments securities	$ 559 340	$ 2 300
Proceeds from maturities and principal payments of securities available for sale	204 087	11 004
Purchase of investment securities	(299 221)	- -
Purchase of securities available for sale	(473 203)	(15 900)
Net (increase) in loans	(2 894 659)	(4 003 977)
Purchase of equipment	(96 281)	(50 592)
Net cash (used in) investing activities	$ (2 999 937)	$ (4 057 165)
Cash Flows from Financing Activities		
Net increase in demand deposits, NOW accounts and savings accounts	$ 1 055 295	$ 589 354
Net increase in certificates of deposit	4 188 690	3 851 348
Cash paid in lieu of fractional shares	(3 209)	- -
Principal payments on capital lease obligations	(14 322)	(11 037)
Principal payments on mortgage payable	(11 757)	(10 909)
Net cash provided by financing activities	$ 5 214 697	$ 4 418 756

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Consolidated Statements of Cash Flows
(Unaudited)
(Continued)
For the Six Months Ended June 30, 1996 and 1995

<TABLE>
<CAPTION>

	1996	1995

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<S> <C>

Increase in cash and cash equivalents	$ 2 401 246	$ 518 318
Cash and Cash Equivalents		
Beginning	3 856 876	2 065 496
Ending	$ 6 258 122	$ 2 583 814
Supplemental Disclosures of Cash Flow Information, cash payments for interest	$ 727 730	$ 638 225
Supplemental Schedule of Noncash Investing and Financing Activities		
Equipment acquired under capital lease obligations	$ - -	$ 21 395
Unrealized gain (loss) on securities available for sale	$ (18 352)	$ 12 899

</TABLE>

See Notes to Consolidated Financial Statements.

MARATHON FINANCIAL CORPORATION

Notes to Consolidated Financial Statements
(Unaudited)

Note 1. Nature of Banking Activities and Significant Accounting Policies

Marathon Financial Corporation and Subsidiary, The Marathon Bank, (the Corporation) grant commercial, financial, agricultural, residential and consumer loans to customers in Virginia. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers.

The accounting and reporting policies of the Corporation conform to generally accepted accounting principles and to general practices within the banking industry. The following is a summary of the more significant policies.

Principles of Consolidation

The consolidated financial statements of the Marathon Financial Corporation and its Subsidiary, include the accounts of all companies. All material intercompany balances and transactions have been eliminated.

Securities

Securities are classified in three categories and accounted for as follows:

a. Securities Held to Maturity

Securities classified as held to maturity are those debt securities the Corporation has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the interest method over their contractual lives.

b. Securities Available for Sale

Securities classified as available for sale are those debt and equity securities that the Corporation intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Corporation's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains or losses are reported as

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increases or decreases in stockholders' equity. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings.

c. Trading Securities

Trading securities, which are generally held for the short term in anticipation of market gains, are carried at fair value. Realized and unrealized gains and losses on trading account assets are included in interest income on trading account securities. The Corporation had no trading securities at June 30, 1996 and 1995.

Derivative Financial Instruments

FASB No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments" requires various disclosures for derivative financial instruments which are futures, forwards, swaps, or option contracts, or other financial instruments with similar characteristics. The Corporation does not have any derivative financial instruments as defined under this statement.

Loans

Loans are stated at the amount of unpaid principal, reduced by unearned discount and an allowance for loan losses. Unearned discount on installment loans is recognized as income over the terms of the loans by the interest method. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Loans are charged off when management believes that the collectibility of the principal is unlikely. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful.

On January 1, 1995, the Corporation adopted FASB No. 114, "Accounting by Creditors for Impairment of a Loan." This statement has been amended by FASB No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." Statement 114, as amended, requires that the impairment of loans that have been separately identified for evaluation is to be measured based on the present value of expected future cash flows or, alternatively, the observable market price of the loans or the fair value of the collateral. However, for those loans that are collateral dependent (that is, if repayment of those loans is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable, the measure of impairment of those loans is to be based on the fair value of the collateral. Statement 114, as amended, also requires certain disclosures about investments in impaired loans and the allowance for credit losses and interest income recognized on loans. The Corporation had no loans subject to FASB 114 at June 30, 1996 and 1995.

Loans are placed on nonaccrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received.

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Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily on the straight-line and declining-balance methods. Lease amortization is included in depreciation expense.

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Classifications of Amortization on Assets Acquired Under Capital Leases

The amortization expense on assets acquired under capital leases is included with the depreciation expense.

Earnings Per Share

Earnings per share of common stock are based on the weighted average number of common shares outstanding during each year after giving retroactive effect to the stock dividend declared in 1995.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carry-forwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Organization Costs

The Marathon Financial Corporation was organized under the laws of the State of Virginia as a bank holding company on October 2, 1990. Certain expenses incurred prior to this date were deferred and were amortized using the straight-line method over a 60-month period.

Loan Fees and Costs

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Loan origination and commitment fees and direct loan origination costs are being recognized as collected and incurred. The use of this method of recognition does not produce results that are materially different from results which would have been produced if such costs and fees were deferred and amortized as an adjustment of the loan yield over the life of the related loan.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Securities

The amortized cost and fair value of the securities available for sale as of June 30, 1996, is as follows:

<TABLE>
<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		1996		
<S> <C>				
Obligations of U.S. government corporations and agencies	$ 595 744	$ 1 862	$ (8 545)	$ 589 061
Mortgage-backed securities	137 134	1 558	(4 810)	133 882
Other	302 850	- -	- -	302 850
	$ 1 035 728	$ 3 420	$ (13 355)	$ 1 025 793

</TABLE>

The amortized cost and fair value of the securities available for sale as of June 30, 1996, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because mortgages underlying the mortgage-backed securities may be called or prepaid without any penalties.

<TABLE>
<CAPTION>

	Amortized Cost	Fair Value
<S> <C>		
Due after one year through five years	$ 595 744	$ 589 061
Mortgage-backed securities	137 134	133 882
Other	302 850	302 850
	$ 1 035 728	$ 1 025 793

</TABLE>

The amortized cost and fair value of securities being held to maturity as of June 30, 1996 is as follows:

<TABLE>
<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value

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	1996			
U.S. Treasuries and obligations of U.S. government corporations and agencies	$ 297 980	$ - -	$ (4 713)	$ 293 267
Obligations of state and political subdivisions	251 324	6 330	(1 154)	256 500
Corporate securities	99 885	115	- -	100 000
Mortgage-backed securities	16 363	176	- -	16 539
	$ 665 552	$ 6 621	$ (5 867)	$ 666 306

</TABLE>

Notes to Consolidated Financial Statements
(Unaudited)

The amortized cost and fair value of the securities being held to maturity as of June 30, 1996, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the corporate securities and mortgages underlying the mortgage-backed securities may be called or prepaid without any penalties.

<TABLE>
<CAPTION>

	Amortized Cost	Fair Value
Due after one year through five years	$ 297 980	$ 293 267
Due after five years through ten years	251 324	256 500
Corporate securities	99 885	100 000
Mortgage-backed securities	16 363	16 539
	$ 665 552	$ 666 306

</TABLE>

Proceeds from maturities, calls and principal payments of securities available for sale during 1996 and 1995 were $204,087 and $11,004. There were no realized gains or realized losses recognized on these transactions.

Proceeds from maturities, calls and principal payments of securities being held to maturity during 1996 and 1995 were $559,340 and $2,300. There were no realized gains or realized losses recognized on these transactions.

Securities having a book value of $547,589 and $695,655 at June 30, 1996 and 1995 were pledged to secure public deposits and for other purposes required by law.

Note 3. Loans and Related Party Transactions

The loan portfolio as of June 30, 1996, is composed of the following:

Commercial	$ 15 310 722
Real estate - mortgage	5 747 258
Real estate - construction	4 015 021
Installment loans to individuals	6 986 771
	$ 32 059 772
Less allowance for loan losses	463 593
	$ 31 596 179

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, executive officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. These persons and firms (exclusive of loans

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to any such person which in the aggregate did not exceed $60,000) were indebted to the Bank for loans totaling $1,459,760 at June 30, 1996. During 1996, total principal additions were $528,117 and total principal payments were $243,242.

Notes to Consolidated Financial Statements
(Unaudited)

Note 4. Allowance for Loan Losses

Changes in the allowance for loan losses are as follows:

	June 30, 1996	June 30, 1995
Balance, beginning	$ 393 139	$ 299 203
Provision for loan losses	72 500	16 000
Recoveries	4 265	2 050
Loan losses charged to the allowance	(6 311)	(7 411)
Balance, ending	$ 463 593	$ 309 842

Nonaccrual loans excluded from impaired loan disclosure under FASB 114 amounted to $63,819 at June 30, 1996. If interest on these loans had been accrued, such income would have approximated $2,518 for 1996.

Note 5. Bank Premises and Equipment, Net

Bank premises and equipment as of June 30, 1996 consists of the following:

Capital leases - computer	$ 151 047
Bank premises	1 222 881
Furniture and equipment	742 159
	$ 2 116 087
Less accumulated depreciation	788 163
	$ 1 327 924

Depreciation included in operating expense for 1996 and 1995 was $56,820 and $48,223, respectively.

Note 6. Organization Costs

Certain costs incurred by the Corporation prior to commencing operations on October 2, 1990, were capitalized and amortized over a 60-month life. These costs totaled $60,350.

Notes to Consolidated Financial Statements
(Unaudited)

Note 7. Deposits

Deposits outstanding at June 30, 1996 and 1995 and the related interest expense for the years then ended, are summarized as follows:

<TABLE>
<CAPTION>

	1996		1995	
	Amount	Expense	Amount	Expense
<S> <C>				
Noninterest bearing	$ 6 267 152	$ - -	$ 4 348 396	$ - -
Interest bearing:				

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Interest checkin	$ 2 080 895	$ 30 098	$ 1 855 975	$ 21 523
Money market accounts	3 140 621	56 858	2 536 310	38 187
Regular savings	5 057 468	79 657	4 844 164	79 153
Certificates of deposit:				
Less than $100,000	16 971 439	445 950	12 457 447	333 088
$100,000 and more	4 348 574	105 155	3 002 626	69 086
Total interest bearing	$31 598 997	$ 717 718	$24 696 522	$ 541 037
Total deposits	$37 866 149	$ 717 718	$29 044 918	$ 541 037

</TABLE>

Note 8. Income Taxes

Net deferred tax assets consist of the following components as of June 30, 1996:

Deferred tax assets:	
Net operating loss carryforward	$1 163 263
Writedown of other real estate	14 478
Less valuation allowance	(1 103 668)
	$ 74 073
Deferred tax liabilities:	
Allowance for loan losses	$ 74 073
	$ - -

The provision for income taxes charged to operations for the years ended June 30, 1996 and 1995, consists of the following:

	1996	1995
Current tax expense	$ 4 066	$ - -
Deferred tax expense	103 152	59 425
Benefit of net operating loss	(103 152)	(59 425)
	$ 4 066	$ - -

Notes to Consolidated Financial Statements
(Unaudited)

The current tax expense incurred in 1996 is related to the alternative minimum tax calculated for the Corporation.

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the six months ended June 30, 1996 and 1995, due to the following:

	1996	1995
Computed "expected" tax expense	$ 104 594	$ 60 076
Increase (decrease) in income taxes resulting from:		
Reduction of valuation allowance	(103 152)	(59 425)
Tax exempt interest income	(1 157)	(1 611)
Other	3 781	960
	$ 4 066	$ - -

Under the provisions of the Internal Revenue Code, the Corporation has available approximately $3,421,362 of net operating loss carryforwards which can be offset against future taxable income. The carryforwards expire December 31, 2006. The full realization of the tax benefits associated with the carryforwards depends predominately upon the recognition of ordinary income during the

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carryforward period.

The loss carryforward at June 30, 1996, for financial reporting purposes is approximately $3,225,670. The differences between the loss carryforward for financial reporting and income tax purposes results principally from timing differences in recognizing start-up costs and the provision for loan losses. No deferred taxes are recorded on these timing differences due to the net operating loss carryforward position of the Corporation.

Note 9. Leases

Capital Lease

During the year ended December 31, 1994, the Corporation entered into a lease agreement on computer equipment and software. Additional equipment and software was added to the lease during 1995 in the amount of $21,395. The balance of the liability under capital leases at June 30, 1996 in the amount of $95,278 represents the present value of the balance due in future years for lease rentals discounted at 7%. The liability is payable in quarterly installments of $9,017 for principal and interest to June 1, 1999. Since the term of the lease is approximately the same as the estimated useful life of the assets, and the present value of the future minimum lease payments at the beginning of the lease approximated the fair value of the leased assets at that date, the leases are considered to be capital leases and have been so recorded. The lease also requires additional maintenance payments of $4,853 per quarter.

The following is a schedule by years of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 1996:

For the Year Ended December 31:	
1996	$ 27 740
1997	55 480
1998	55 480
1999	25 821
Total minimum lease payments	$ 164 521
Less estimated executory costs (such as maintenance) included in the total minimum lease payments	58 236
Net minimum lease payments	$ 106 285
Less the amount representing interest	11 007
Present value of net minimum lease payments	$ 95 278

Lease Commitments and Total Rental Expense

During the year ended December 31, 1994, the Corporation entered into a five-year operating lease for the rental of a branch location. The lease expires on September 30, 1999 and has two five-year renewal options. The lease provides that the Corporation pay all property taxes, insurance and maintenance plus an annual rental of $12,000 for the initial lease period commencing on April 1, 1995. The total minimum lease commitment at June 30, 1996 under this lease is $45,000 which is due as follows:

For the Year Ended December 31:	
1996	$ 6 000
1997	12 000
1998	12 000
1999	12 000
2000	3 000
	$ 45 000

There was $6,000 in rental expense resulting from this lease included in the consolidated statements of income for the six

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months ended June 30, 1996.

Notes to Consolidated Financial Statements
(Unaudited)

Fixed Equipment on Land Leased with Related Parties

As of June 30, 1996 the Corporation has invested $237,365 in the construction of a new building on this site. The Corporation has agreed to finance the construction of the building with the understanding that the lessor will reimburse the Corporation for all costs and will lease the building to the Corporation for a rental expense to be determined based on the total cost of the finished building and a land value of $150,000. The project was completed on June 30, 1996.

Note 10. Commitments and Contingent Liabilities

In the normal course of business, there are other outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. See Note 13 with respect to financial instruments with off-balance-sheet risk.

As members of the Federal Reserve System, the Corporation is required to maintain certain average reserve balances. For the final weekly reporting period in the year ended June 30, 1996 this requirement was $72,000.

Note 11. Dividend Restrictions

Federal and state regulations limit the amount of dividends which the Corporation can pay without obtaining prior approval and, additionally, federal regulations require that the Corporation maintain minimum capital requirements. As of June 30, 1996, the Corporation was required to obtain prior approval on any dividend declared.

The Corporation did obtain approval from the State Corporation Commission to pay a stock dividend and on December 19, 1995, the Board of Directors declared a stock dividend equal to 15% of net income, payable February 8, 1996, to stockholders of record December 19, 1995. This dividend has been reflected in the accompanying financial statements.

Transfers of funds from the banking subsidiary to the parent corporation in the form of loans, advances and cash dividends are restricted by federal and state regulatory authorities. As of June 30, 1996, no unrestricted funds could be transferred from the banking subsidiary to the parent corporation, without prior regulatory approval.

Notes to Consolidated Financial Statements
(Unaudited)

Note 12. Other Expenses

The principal components of "Other expenses" in the Consolidated Statements of Income are:

	1996	1995
FDIC assessment	$ 1 500	$ 27 490
Marketing	32 531	32 100
Stationery and supplies	23 894	24 377
Professional fees	25 069	26 258
Postage	24 924	12 640
Other (includes no items in excess of 1% of total revenue)	213 017	143 936
	$ 320 935	$ 266 801

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Note 13. Financial Instruments With Off-Balance-Sheet Risk

The Corporation is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of the contract or notional amount of the Corporation's exposure to off-balance-sheet risk as of June 30, 1996 is as follows:

Financial instruments whose contract amounts represent credit risk:	
Commitments to extend credit	$ 4 684 904
Standby letters of credit	78 000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation holds no collateral supporting those commitments.

The Corporation has cash accounts in other commercial banks. The amount on deposit at two of these banks at June 30, 1996 exceeded the insurance limits of the Federal Deposit Insurance Corporation by approximately $797,183.

Note 14. Defined Contribution Retirement Plan

The Corporation has a defined contribution retirement plan under Code Section 401(k) of the Internal Revenue Service covering employees who have completed six months of service and who are at least 21 years of age. No contributions were made to the plan for the six months ended June 30, 1996 and 1995.

Note 15. Stock Options and Warrants Outstanding

On June 15, 1992 the Corporation issued one stock purchase warrant ("warrant") for each share of preferred stock purchased in a private offering. A total of 200,688 warrants were issued. Warrants were immediately transferable and entitle the holder to purchase one share of common stock at a price of $5.00 per share until June 30, 1997. As of June 30, 1996 all 200,688 warrants were outstanding.

On April 13, 1992 the Corporation granted 500 stock options to the Corporation's chief executive officer pursuant to his employment agreement with the Corporation. The stock options are exercisable at $5.00 per share and expire on June 1, 1997. As of June 30, 1996 all

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500 stock options were outstanding.

Notes to Consolidated Financial Statements
(Unaudited)

Note 16. Parent Corporation Only Financial Statements

MARATHON FINANCIAL CORPORATION
(Parent Corporation Only)

Balance Sheet
(Unaudited)

June 30, 1996

Assets	
Cash	$ 732
Prepaid expenses	690
Investment in capital stock of subsidiary	2 961 538
Total assets	$ 2 962 960
Liabilities, accounts payable	$ - -
Stockholders' Equity	
Preferred stock	$ - -
Common stock	1 306 303
Capital surplus	5 109 908
Retained earnings (deficit)	(3 443 316)
Unrealized (loss) on securities available for sale	(9 935)
Total stockholders' equity	$ 2 962 960
Total liabilities and stockholders' equity	$ 2 962 960

Notes to Consolidated Financial Statements
(Unaudited)

MARATHON FINANCIAL CORPORATION
(Parent Corporation Only)

Statements of Income
(Unaudited)
For the Six Months Ended June 30, 1996 and 1995

<TABLE>
<CAPTION>

<S> <C>	1996	1995
Income, dividends from subsidiary	$ 6 000	$ - -
Expenses:		
Amortization	$ - -	$ 5 064
Other	841	425
Total expenses	$ 841	$ 5 489
Income (loss) before undistributed income of subsidiaries	$ 5 159	$ (5 489)
Undistributed income of		

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subsidiary	298 403	182 182
Net income	$ 303 562	$ 176 693

</TABLE>

Notes to Consolidated Financial Statements
(Unaudited)

MARATHON FINANCIAL CORPORATION
(Parent Corporation Only)

Statements of Cash Flows
(Unaudited)

For the Six Months Ended June 30, 1996 and 1995

<TABLE>
<CAPTION>

<S> <C>

	1996	1995
Cash Flows from Operating Activities		
Net income	$ 303 562	$ 176 693
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	- -	5 064
Undistributed (income) of subsidiary	(298 403)	(182 182)
(Increase) decrease in prepaid expenses	(113)	425
(Decrease) in accounts payable, subsidiary company	(1 475)	- -
Net cash provided by operating activities	$ 3 571	$ - -
Cash Flows from Financing Activities, cash paid in lieu of financial shares	$ (3 209)	$ - -
Increase in cash and cash equivalents	$ 362	$ - -
Cash and Cash Equivalents		
Beginning	370	370
Ending	$ 732	$ 370

</TABLE>

No person has been authorized in connection with this offering to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorized by the Corporation or the Underwriter. This Prospectus does not constitute an offer of any securities other than the Common Stock to which it relates or an offer to sell, or a solicitation of an offer to buy, in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation since the date hereof or that the information contained or incorporated by reference herein is correct as of any time subsequent to its date.

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[LOGO]

100,000 Shares
Common Stock

PROSPECTUS

McKinnon & Company, Inc.

August 26, 1996

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the fees and expenses, other than underwriting discounts and commissions, in connection with the issuance and distribution of the Common Stock being registered hereunder. Except for the SEC registration fee and NASD filing fees, all amounts are estimates.

Expenses	Amount
SEC Registration Fee..............................	$ 1,140.09
NASD Fees...	830.63
Nasdaq SmallCap Market Fees.......................	7,806.30
Printing Expenses.................................	12,000.00
Legal Fees and Expenses...........................	25,000.00
Transfer Agent and Registrar Fees.................	0
Accounting Fees and Expenses......................	20,000.00
Blue Sky Fees and Expenses........................	3,500.00
Miscellaneous Expenses............................	2,000.00
TOTAL...........................	$72,277.02

Item 14. Indemnification of Officers and Directors.

The Corporation was incorporated in Virginia. The Virginia Stock Corporation Act ("Virginia Stock Corporation Act") contains the following provisions with respect to the indemnification of officers, directors, employees and agents and the limitation on liability of officers and directors:

Section 13.1-692.1. Limitation on liability of officers and directors; exception.

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A. In any proceeding brought by or in the right of a corporation or brought by or on behalf of shareholders of the corporation, the damages assessed against an officer or director arising out of a single transaction, occurrence or course of conduct shall not exceed the lesser of:

1. The monetary amount, including the elimination of liability, specified in the articles of incorporation or, if approved by the shareholders, in the bylaws as a limitation on or elimination of the liability of the officer or director; or

2. The greater of (i) $100,000 or (ii) the amount of cash compensation received by the officer or director from the corporation during the twelve months immediately preceding the act or omission for which liability was imposed.

B. The liability of an officer or director shall not be limited as provided in this section if the officer or director engaged in willful misconduct or a knowing violation of the criminal law or of any federal or state securities law, including, without limitation, any claim of unlawful insider trading or manipulation of the market for any security.

C. No limitation on or elimination of liability adopted pursuant to this section may be affected by any amendment of the articles of incorporation or bylaws with respect to any act or omission occurring before such amendment.

Section 13.1-696. Definitions. - In this article:

"Corporation" includes any domestic or foreign predecessor entity of a corporation in a merger or other transaction in which the predecessor's existence ceased upon consummation of the transaction.

"Director" means an individual who is or was a director of a corporation or an individual who, while a director of a corporation, is or was serving at the corporation's request as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise. A director is considered to be serving an employee benefit plan at the corporation's request if his duties to the corporation also impose duties on, or otherwise involve services by, him to the plan or to participants in or beneficiaries of the plan. "Director" includes, unless the context requires otherwise, the estate or personal representative of a director.

"Expenses" includes counsel fees.

"Liability" means the obligation to pay a judgment, settlement, penalty, fine, including any excise tax assessed with respect to an employee benefit plan, or reasonable expenses incurred with respect to a proceeding.

"Official capacity" means, (i) when used with respect to a director, the office of director in a corporation; or (ii) when used with respect to an individual other than a director, as contemplated in Section 13.1-702, the office in a corporation held by the officer or the employment or agency relationship undertaken by the employee or agent on behalf of the corporation. "Official capacity" does not include service for any other foreign or domestic corporation or any partnership, joint venture, trust, employee benefit plan, or other enterprise.

"Party" includes an individual who was, is, or is threatened to be made a named defendant or respondent in a proceeding.

"Proceeding" means any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal.

Section 13.1-697. Authority to indemnify.

A. Except as provided in subsection D of this section, a corporation may indemnify an individual made a party to a proceeding because he is or was a director against liability incurred in the proceeding if:

1. He conducted himself in good faith; and

2. He believed:

a. In the case of conduct in his official capacity with the corporation, that his conduct was in its best interests; and

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b. In all other cases, that his conduct was at least not opposed to its best interest; and

3. In the case of any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful.

B. A director's conduct with respect to an employee benefit plan for a purpose he believed to be in the interests of the participants in and beneficiaries of the plan is conduct that satisfies the requirement of paragraph 2b of subsection A of this section.

C. The termination of a proceeding by judgment, order, settlement or conviction is not, of itself, determinative that the director did not meet the standard of conduct described in this section.

D. A corporation may not indemnify a director under this section:

1. In connection with a proceeding by or in the right of the corporation in which the director was adjudged liable to the corporation; or

2. In connection with any other proceeding charging improper personal benefit to him, whether or not involving action in his official capacity, in which he was adjudged liable on the basis that personal benefit was improperly received by him.

E. Indemnification permitted under this section in connection with a proceeding by or in the right of the corporation is limited to reasonable expenses incurred in connection with the proceeding.

Section 13.1-698. Mandatory indemnification. Unless limited by its articles of incorporation, a corporation shall indemnify a director who entirely prevails in the defense of any proceeding to which he was a party because he is or was a director of the corporation against reasonable expenses incurred by him in connection with the proceeding.

Section 13.1-699. Advance for expenses.

A. A corporation may pay for or reimburse the reasonable expenses incurred by a director who is a party to a proceeding in advance of final disposition of the proceeding if:

1. The director furnishes the corporation a written statement of his good faith belief that he has met the standard of conduct described in Section 13.1-697;

2. The director furnishes the corporation a written undertaking, executed personally or on his behalf, to repay the advance if it is ultimately determined that he did not meet the standard of conduct; and

3. A determination is made that the facts then known to those making the determination would not preclude indemnification under this article.

B. The undertaking required by paragraph 2 of subsection A of this section shall be an unlimited general obligation of the director but need not be secured and may be accepted without reference to financial ability to make repayment.

C. Determinations and authorizations of payments under this section shall be made in the manner specified in Section 13.1-701.

Section 13.1-700.1. Court orders for advances, reimbursement or indemnification.

A. An individual who is made a party to a proceeding because he is or was a director of a corporation may apply to a court for an order directing the corporation to make advances or reimbursement for expenses or to provide indemnification. Such application may be made to the court conducting the proceeding or to another court of competent jurisdiction.

B. The court shall order the corporation to make advances and/or

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reimbursement for expenses or to provide indemnification if it determines that the director is entitled to such advances, reimbursement or indemnification and shall also order the corporation to pay the director's reasonable expenses incurred to obtain the order.

C. With respect to a proceeding by or in the right of the corporation, the court may (i) order indemnification of the director to the extent of his reasonable expenses if it determines that, considering all the relevant circumstances, the director is entitled to indemnification even though he was adjudged liable to the corporation and (ii) also order the corporation to pay the director's reasonable expenses incurred to obtain the order of indemnification.

D. Neither (i) the failure of the corporation, including its board of directors, its independent legal counsel and its shareholders, to have made an independent determination prior to the commencement of any action permit ted by this section that the applying director is entitled to receive advances and/or reimbursement nor (ii) the determination by the corporation, including its board of directors, its independent legal counsel and its shareholders, that the applying director is not entitled to receive advances and/or reimbursement or indemnification shall create a presumption to that effect or otherwise of itself be a defense to that director's application for advances for expenses, reimbursement or indemnification.

Section 13.1-701. Determination and authorization of indemnification.

A. A corporation may not indemnify a director under Section 13.1-697 unless authorized in the specific case after a determination has been made that indemnification of the director is permissible in the circumstances because he has met the standard of conduct set forth in Section 13.1-697.

B. The determination shall be made:

1. By the board of directors by a majority vote of a quorum consisting of directors not at the time parties to the proceeding;

2. If a quorum cannot be obtained under paragraph 1 of this subsection, by majority vote of a committee duly designated by the board of directors (in which designation directors who are parties may participate), consisting solely of two or more directors not at the time parties to the proceeding;

3. By special legal counsel:

a. Selected by the board of directors or its committee in the manner prescribed in paragraph 1 or 2 of this subsection; or

b. If a quorum of the board of directors cannot be obtained under paragraph 1 of this subsection and a committee cannot be designated under paragraph 2 of this subsection, selected by majority vote of the full board of directors, in which selection directors who are parties may participate; or

4. By the shareholders, but shares owned by or voted under control of directors who are at the time parties to the proceeding may not be voted on the determination.

C. Authorization of indemnification and evaluation as to reasonableness of expenses shall be made in the same manner as the determination that indemnification is permissible, except that if the determination is made by special legal counsel, authorization of indemnification and evaluation as to reasonableness of expenses shall be made by those entitled under paragraph 3 of subsection B of this section to select counsel.

Section 13.1-702. Indemnification of officers, employees and agents. Unless limited by a corporation's articles of incorporation,

1. An officer of the corporation is entitled to mandatory indemnification under Section 13.1-698, and is entitled to apply for court-ordered indemnification under Section 13.1-700.1, in each case to the same extent as a director; and

2. The corporation may indemnify and advance expenses under this article to an officer, employee, or agent of the corporation to the same extent as to a director.

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Section 13.1-703. Insurance. A corporation may purchase and maintain insurance on behalf of an individual who is or was a director, officer, employee, or agent of the corporation, or who, while a director, officer, employee, or agent of the corporation, is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, against liability asserted against or incurred by him in that capacity or arising from his status as a director, officer, employee, or agent, whether or not the corporation would have power to indemnify him against the same liability under Section 13.1-697 or Section 13.1-698.

Section 13.1-704. Application of article.

A. Unless the articles of incorporation or bylaws expressly provide otherwise, any authorization of indemnification in the articles of incorporation or bylaws shall not be deemed to prevent the corporation from providing the indemnity permitted or mandated by this article.

B. Any corporation shall have power to make any further indemnity, including indemnity with respect to a proceeding by or in the right of the corporation, and to make additional provisions for advances and reimbursement of expenses, to any director, officer, employee or agent that may be authorized by the articles of incorporation or any bylaw made by the shareholders or any resolution adopted, before or after the event, by the shareholders, except an indemnity against (i) his willful misconduct, or (ii) a knowing violation of the criminal law. Unless the articles of incorporation, or any such bylaw or resolution expressly provide otherwise, any determination as to the right to any further indemnity shall be made in accordance with Section 13.1-701B. Each such indemnity may continue as to a person who has ceased to have the capacity referred to above and may inure to the benefit of the heirs, executors and administrators of such a person.

C. No right provided to any person pursuant to this section may be reduced or eliminated by any amendment of the articles of incorporation or bylaws with respect to any act or omission occurring before such amendment.

Article V of the Corporation's Articles of Incorporation reads as follows:

"ARTICLE V

(1) In this Article:

"applicant" means the person seeking indemnification pursuant to this Article.

"expenses" includes counsel fees.

"liability" means the obligation to pay a judgment, settlement, penalty, fine, including any excise tax assessed with respect to an employee benefit plan, or reasonable expenses incurred with respect to a proceeding.

"party" includes an individual who was, is, or is threatened to be made a named defendant or respondent in a proceeding.

"proceeding" means any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal.

(2) In any proceeding brought by or in the right of the Corporation or brought by or on behalf of shareholders of the Corporation, no Director or officer of the Corporation shall be liable to the Corporation or its shareholders for monetary damages in excess of $0.00 with respect to any transaction, occurrence, or courses of conduct, whether prior or subsequent to the effective date of these Articles, except for liability resulting from such person's having engaged in willful misconduct or a knowing violation of the criminal law or any federal or state securities law.

(3) The Corporation shall indemnify (a) any person who was or is a party to any proceeding, including a proceeding brought by a shareholder in the right of the Corporation or brought by or on behalf of the shareholders of the Corporation, by reason of the fact that he is or was a Director or officer of the Corporation, or (b) any Director or officer who is or was serving at the request of the Corporation as a director, trustee, partner or officer of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against any liability incurred by him in connection with such

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proceeding unless he engaged in willful misconduct or a knowing violation of criminal law. A person is considered to be serving an employee benefit plan at the Corporation's request if his duties to the Corporation also impose duties on, or otherwise involve services by him to the plan or to participants in or beneficiaries of the plan. The Board of Directors is hereby empowered, by a majority vote of a quorum of disinterested Directors, to enter into a contract to indemnify any Director or officer in respect of any proceedings arising from any act or omission, whether occurring before or after the execution of such contract.

(4) The provisions of this Article shall be applicable to all proceedings commenced after the effectiveness of these Articles, arising from any act or omission, whether occurring before or after such effectiveness. No amendment or repeal of this Article shall have any effect on the rights provided under this Article with respect to any act or omission occurring prior to such amendment or repeal. The Corporation shall promptly take all such actions, and make all such determinations, as shall be necessary or appropriate to comply with its obligation to make any indemnity under this Article and shall promptly pay or reimburse all reasonable expenses, including attorneys' fees, incurred by any such Director or officer in connection with such actions and determinations or proceedings of any kind arising therefrom.

(5) The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the applicant did not meet the standard of conduct described in Sections (2) or (3) of this Article.

(6) Any indemnification under Section (3) of this Article (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the applicant is proper in the circumstances because he has met the applicable standard of conduct set forth in Section (3).

The determination shall be made:

(a) By the Board of Directors by a majority vote of a quorum consisting of Directors not at the time parties to the proceeding;

(b) If a quorum cannot be obtained under subsection (a) of this Section, by majority vote of a committee duly designated by the Board of Directors (in which designation Directors who are parties may participate), consisting solely of two or more Directors not at the time parties to the proceeding;

(c) By special legal counsel:

(i) Selected by the Board of Directors or its committee in the manner prescribed in subsection (a) or (b) of this Section; or

(ii) If a quorum of the Board of Directors cannot be obtained under subsection (a) of this Section and a committee cannot be designated under subsection (b) of this Section, selected by majority vote of the full Board of Directors, in which selected Directors who are parties may participate; or

(d) By the shareholders, but share owned by or voted under the control of Directors who are at the time parties to the proceeding may not be voted on the determination.

Any evaluation as to reasonableness of expenses shall be made in the same manner as the determination that indemnification is appropriate, except that if the determination is made by special legal counsel, such evaluation as to reasonableness of expenses shall be made by those entitled under subsection (c) of this Section (6) to select counsel.

Notwithstanding the foregoing, in the event there has been a change in the composition of a majority of the Board of Directors after the date of the alleged act or omission with respect to which indemnification is claimed, any determination as to indemnification and advancement of expenses with respect to any claim for indemnification made pursuant to this Article shall be made by special legal counsel agreed upon by the Board of Directors and the applicant. If the Board of Directors and the applicant are unable to agree upon such special legal counsel the Board of Directors and the applicant each shall select a nominee, and the nominees shall select such special legal counsel.

(7) (a) The Corporation shall pay for or reimburse the reasonable expenses incurred by any applicant who is a party to a proceeding in advance of final disposition of the proceeding or the making of any determination under

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Section (3) if the applicant furnishes the Corporation;

(i) a written statement of his good faith belief that he has met the standard of conduct described in Section (3); and

(ii) A written undertaking, executed personally or on his behalf, to repay the advance if it is ultimately determined that he did not meet such standard of conduct.

(b) The undertaking required by paragraph (ii) of subsection (a) of this Section shall be an unlimited general obligation of the applicant but need not be secured and may be accepted without reference to financial ability to make repayment.

(c) Authorizations of payments under this Section shall be made by the persons specified in Section (6).

(8) The Board of Directors is hereby empowered, by majority vote of a quorum consisting of disinterested Directors, to cause the Corporation to indemnify or contract to indemnify any person not specified in Sections (2) or (3) of this Article who was, is or may become a party to any proceeding, by reason of the fact that he is or was an employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, to the same extent as if such person were specified as one to whom indemnification is granted in Section (3). The provisions of Sections (4) through (7) of this Article shall be applicable to any indemnification provided hereafter pursuant to this Section (8).

(9) The Corporation may purchase and maintain insurance to indemnify it against the whole or any portion of the liability assumed by it in accordance with this Article and may also procure insurance, in such amounts as the Board of Directors may determine, on behalf of any person who is or was a Director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against any liability asserted against or incurred by him in any such capacity or arising from his status as such, whether or not the Corporation would have power to indemnify him against such liability under the provisions of this Article.

(10) Every reference herein to directors, officers, employees or agents shall include former directors, officers, employees and agents and their respective heirs, executors and administrators. The indemnification hereby provided and provided hereafter pursuant to the power hereby conferred by this Article on the Board of Directors shall not be exclusive of any other rights to which any person may be entitled, including any right under policies of insurance that may be purchased and maintained by the Corporation or others, with respect to claims, issues or matters in relation to which the Corporation would not have the power to indemnify such person under the provisions of this Article. Such rights shall not prevent or restrict the power of the Corporation to make or provide for any further indemnity, or provisions for determining entitlement to indemnity, pursuant to one or more indemnification agreements, by-laws, or other arrangements (including without limitation, creation of trust funds or security interests funded by letters of credit or other means) approved by the Board of Directors (whether or not any of the Directors of the Corporation shall be a party to or beneficiary of any such agreements, by-laws or arrangements); provided, however, that any provision of such agreements, by-laws or other arrangements shall not be effective if an and to the extent that it is determined to be contrary to this Article or applicable laws of the Commonwealth of Virginia.

(11) Each provision of this Article shall be severable, and an adverse determination as to any such provision shall in no way affect the validity of any other provision."

Item 15. Recent Sales of Unregistered Securities

On July 1, 1995, the Corporation issued 200,688 shares of unregistered common stock in exchange for all of its outstanding unregistered preferred stock. The 200,688 shares of preferred stock converted in the exchange were originally issued (the "Preferred Stock Offering") as part of a private placement which closed in May of 1992. The Preferred Stock Offering was limited

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to accredited investors and no more than 35 qualified nonaccredited investors. Accordingly, the Preferred Stock Offering was exempt from registration under the Securities Act of 1933 (the "Act") pursuant to Sections 3(b) and 4(2) of the Act and Regulation D promulgated thereunder by the Securities and Exchange Commission.

Item 16. Exhibits and Financial Statement Schedules

(a) The following exhibits either are filed as part of this Registration Statement or are incorporated herein by reference:

Exhibit Number	Description of Exhibit
1.1	Form of Underwriting Agreement.
3.1	Articles of Incorporation of Marathon Financial Corporation, as amended (incorporated herein by reference to the Corporation's Registration Statement on Form S-1 filed on August 26, 1992 (File No. 33-51366)).
3.2	By-Laws of Marathon Financial Corporation, as amended, (incorporated herein by reference as to the Corporation's Registration Statement on Form S-1 filed on August 26, 1992 (File No. 33-51366)).
*4.1	Form of Specimen Stock Certificate.
*5.1	Opinion of Kaufman & Canoles.
10.1	401(k) Plan of Marathon Financial Corporation (incorporated herein by reference to the Corporation's Registration Statement on Form S-1 filed on August 26, 1992 (File No. 33-51366)).
10.2	Employment Agreement between The Marathon Bank and Donald L. Unger (incorporated herein by reference to the Corporation's Registration Statement on Form S-1 filed on August 26, 1992 (File No. 33-51366)).
10.3	Lease dated July 1, 1996, between The Marathon Bank and Post Office Plaza Partnership for the branch office at 300 Warren Avenue, Front Royal, Virginia.
10.4	Lease between The Marathon Bank and the Lessors, Rogers M. Fred and Clifton G. Stoneburner for the branch office at 1041 Berryville Avenue Winchester, Virginia (incorporated herein by reference to the Corporation's Annual Report on Form 10-K for the yeaer ended December 31, 1995 (File No. 0-18868)).
21	Subsidiaries of the Corporation.
*23.1	Consent of Yount, Hyde & Barbour, P.C.
*23.2	Consent of Kaufman & Canoles, P.C. (included in Opinion filed as Exhibit 5).
24.1	Power of Attorney (included on Signature Page).
*99.1	Form of Subscription Agreement.

----
* Filed herewith

(b) Financial Statement Schedules.

None

Item 17. Undertakings.

The undersigned registrant hereby undertakes the supplement to the Prospectus, after the expiration of the subscription period to set forth the results of the subscription offer, the transactions by the underwriters during the subscription period, the amount of unsubscribed securities to be purchased by the underwriters, and the terms of any subsequent reoffering thereof. If any public offering by the underwriters is to be made on terms differing from those set forth on the cover page of the Prospectus, a post-effective amendment will be filed to set forth the terms of such offering.

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Insofar as indemnification for liabilities arising out of the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense in any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the County of Frederick, Commonwealth of Virginia, on August 23, 1996.

MARATHON FINANCIAL CORPORATION

By: /s/ Donald L. Unger
Donald L. Unger, President and
Chief Executive Officer

POWER OF ATTORNEY

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Witness our hands and common seals on the date set forth below.

Signature	Title	Date
* Frank H. Brumback	Chairman of The Board, Director	August 23, 1996
/s/ Donald L. Unger Donald L. Unger	Director, President and Chief Chief Executive Officer (Principal Executive Officer and Chief Financial Officer)	August 23, 1996
* Robert W. Claytor	Director	August 23, 1996
* Clifton L. Good	Director	August 23, 1996

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*	Director	August 23, 1996
Joseph W. Hollis		
*	Director	August 23, 1996
Gerald H. Kidwell		
*	Director	August 23, 1996
Lewis W. Spangler		
*	Director	August 23, 1996
Thomas W. Grove		
*	Director	August 23, 1996
W. Houston Board, III		
*	Director	August 23, 1996
Ralph S. Gregory		
*	Director	August 23, 1996
George R. Irvin, Jr.		

* Donald L. Unger by signing his name hereto, does sign this document on behalf of the persons indicated above for whom he is attorney-in-fact pursuant to a power of attorney duly executed by such person and filed with the Securities and Exchange Commission.

By: /s/ DONALD L. UNGER
Donald L. Unger, Attorney-in-Fact

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THE CORPORATION WILL FURNISH TO ANY SHAREHOLDER UPON REQUEST AND WITHOUT CHARGE A FULL STATEMENT OF THE DESIGNATIONS, PREFERENCES, LIMITATIONS AND RELATIVE RIGHTS OF THE SHARES OF EACH CLASS AUTHORIZED TO BE ISSUED.

SHARES REPRESENTED BY THE CERTIFICATE ARE SUBJECT TO RESTRICTION AS TO TRANSFER CONTAINED IN THE CORPORATION'S ARTICLES OF INCORPORATION AND MAY NOT BE TRANSFERRED EXCEPT IN COMPLIANCE THEREWITH. A COPY OF THE ARTICLES OF INCORPORATION WILL BE FURNISHED TO ANY SHAREHOLDER UPON WRITTEN REQUEST TO THE SECRETARY OF THE CORPORATION.

For Value Received, hereby sell, assign and transfer unto
Shares
of the Common Stock represented by the within Certificate, and do hereby irrevocably constitute and appoint
to transfer the said Stock on the books of the within named Corporation with full power of substitution in the premises.

Dated , 19 .
In presence of

This Certifies that is the owner of Shares of the Common Stock of MARATHON FINANCIAL CORPORATION, par value one dollar per Share, transferable only on the books of the Corporation by the holder hereof in person or by Attorney upon surrender of this Certificate properly endorsed.

In Witness Whereof, the said Corporation has caused this Certificate to be signed by its duly authorized officers and its Corporate Seal to be here unto affixed this day of A.D. 19 .

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EXHIBIT 5

[KAUFMAN & CANOLES LETTERHEAD]

August 5, 1996

Mr. Donald Unger
Marathon Financial Corporation
4095 Valley Pike
Winchester, Virginia 22602

Re: Registration Statement on Form S-1
Registration No. 33-08995

Dear Don:

We have acted as counsel for James River Bankshares, Inc., a Virginia corporation (the "Company"), in connection with the preparation of the subject registration statement, as amended (the "Registration Statement"), filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended (the "Act"), to register up to 575,000 shares of the common stock, par value $1.00 per share, of the Company (the "Common Stock"), to be issued as described in the Registration Statement. In this connection, we have reviewed (a) the Registration Statement; (b) the Company's Articles of Incorporation and Bylaws; (c) certain records of the Company's corporate proceedings as reflected in its minute and stock books. In our examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with the original of all documents submitted to us as copies thereof.

In our opinion, the 575,000 shares of Common Stock to be issued by the Company as described in the Registration Statement, when and to the extent issued in accordance with the terms of the Prospectus contained in the Registration Statement, will be legally issued, fully paid and non-assessable.

We hereby consent to use of this opinion as Exhibit 5 to the Registration Statement and to all references to our firm in the Registration Statement. In giving such consent, we do not thereby admit that we are acting within the category of persons whose consent is required under Section 7 of the Act and the rules and regulations of the Securities and Exchange Commission thereunder.

Very truly yours,

Kaufman & Canoles,
a Professional Corporation

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EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Marathon Financial Corporation

We consent to the use of our report included herein and to the reference to our Firm under the heading "EXPERTS" in the Prospectus.

YOUNT, HYDE & BARBOUR, P.C.

Winchester, VA
August 26, 1996

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SUBSCRIPTION AGREEMENT

Marathon Financial Corporation
4095 Valley Pike
Winchester, VA 22602

Ladies and Gentlemen:

The undersigned hereby acknowledges receipt of, and certifies having read, the Prospectus dated August 26, 1996 (the "Prospectus"), of Marathon Financial Corporation (the "Corporation"), and hereby irrevocably subscribes for and agrees to purchase shares of Common Stock of the Corporation at a purchase price of $5.00 per share as indicated in the table below, upon the terms and conditions set forth in the Prospectus. The undersigned hereby irrevocably tenders a check or money order payable to the order of "Marathon Financial Corporation" evidencing payment for all shares subscribed to by the undersigned, subject to the right of the Corporation to reject in whole or in part the subscription specified herein, other than the subscription for shares that can be purchased pursuant to the Subscription Offering (as defined in the Prospectus), and to allot to the undersigned a fewer number of shares than are subscribed for. The undersigned agrees that the subscription and all matters pertaining thereto shall be governed and construed in accordance with the laws of the Commonwealth of Virginia.

PLEASE FILL IN APPROPRIATE INFORMATION

A. Basic Subscription Right. Divide the number of shares of Common Stock of the Corporation you beneficially owned on June 24, 1996 by twelve (12) and round up any fraction to the next whole number. This is your Basic Subscription Right. Enter in the space below the number of shares you want to purchase under your Basic Subscription Right. You may subscribe for less than the maximum number of shares allocated to you.

________ Shares

B. Oversubscription Privilege. Subject to the availability of shares and the right of the Corporation to reject any oversubscription request in whole or in part, you may oversubscribe by indicating below the number of shares you wish to purchase in addition to the Basic Subscription Right.

________ Shares

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C. Amount Enclosed. Add the number of shares subscribed for in A and B above, and multiply the total by $5.00. Enter the amount below.

$ __________

CHECK OR MONEY ORDER IN THE AMOUNT SET FORTH UNDER C ABOVE SHOULD BE MADE PAYABLE TO THE ORDER OF "MARATHON FINANCIAL CORPORATION"

The reverse side of this Agreement must be completed.

Signature of Subscriber	Signature of Subscriber
Address of Subscriber	Address of Subscriber
Date of Execution	Date of Execution
Social Security or Taxpayer Identification Number	Social Security or Taxpayer Identification Number
Telephone Number	Telephone Number

If shares are to be held jointly, please indicate the form of ownership in which they will be held:

[ ] A. Joint Tenants--(characterized by right of survivorship; when one joint tenant dies, the survivor retains an undivided right in the property no longer subject to the interest of the deceased co-tenant)

[ ] B. Tenants in Common--(no right of survivorship; each owner has a proportionate undivided interest in the property that can be transferred freely; when one tenant dies, the survivor's interest is subject to the interest of the deceased's transferee)

[ ] C. Tenants by the Entirety--(limited to husband and wife; characterized by right of survivorship; cannot be severed by action of one tenant or his/her creditors)

If shares are to be held pursuant to the Uniform Transfer to Minors Act, please indicate below:

[ ] Shares should be registered in the name of   , as custodian for   (name of minor) under the Virginia

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Uniform Transfers to Minor Act (held by custodian on behalf of minor until minor reaches age 18 (or age 21 if "21" is placed in the blank immediately succeeding "Act"))

THIS SUBSCRIPTION AGREEMENT MUST BE RECEIVED BY
THE CORPORATION BY 5:00 P.M.
ON SEPTEMBER 24, 1996, OR YOUR RIGHT TO PURCHASE
SHARES PURSUANT TO THE SUBSCRIPTION OFFERING WILL BE FORFEITED.

SHARES PURCHASED WILL BE REGISTERED IN THE NAME(S)
OF THE SUBSCRIBER(S), AND, UNLESS OTHERWISE INDICATED ABOVE,
MAILED TO THE ADDRESS LISTED ABOVE.

Mail or hand deliver this Subscription Agreement to:
MARATHON FINANCIAL CORPORATION
4095 Valley Pike
Winchester, VA 22602
Attention: Mr. Donald L. Unger
Telephone: (540) 869-6600

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